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If Reserve Banks Are Limited to Discounting

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It Would Mean Practically a Revolution in the Whole Philosophy of the Federal Reserve System. Practical Question to be Decided is Whether Expected Gains Would Compensate for the Losses that Would Be Certain, and for Other Probable Losses.

THIS question was raised at the last annual convention of the American Bankers Association. The convention did not, however, commit itself in any way, but it raised the question in order that discussion of it might be stimulated.

The question was suggested by the expansion of the "open-market" operations of the Reserve System during the past few years. It is necessary in this connection to speak of the "system" rather than of the individual reserve banks, because there was established in 1922, under the leadership of the Reserve Board, a committee of officers of the reserve banks with the avowed purpose of coordinating the open-market operations of the several banks. Furthermore, it is also important to note that the development of the open-market purchases has constituted an important aspect of a deliberate policy on the part of the board "to bring about a better coordination of the open-market operations of the Federal Reserve banks with their discount operations and their general credit policy."

Concerning this policy it is unnecessary at the moment to say anything further. The object sought in its development will be referred to again presently. Under this policy, however, it appears that, with the decline in total bills discounted from their high point in 1923 down practically to the present time in 1924, the tendency has been to expand open-market purchases roughly to keep pace with the decline in discounts. The following table covering the past year illustrates this point:

Federal Reserve System Earning Assets

	Nov. 21, 1924	Nov. 19, 1923
Total bills discounted	$ 233,844,000	$ 746,188,000
Open-market purchases (acceptances and securities) ...	862,322,000	357,917,000
Other earning assets	2,550,000	51,000
Total earning assets	$1,098,716,000	$1,104,156,000

Moreover, while in these open-market purchases acceptances diminished somewhat during the year, the security holdings expanded from seventy-three and one-third million dollars to something over 587 millions.

Criticism of Open-Market Expansion

IN the main, two criticisms have been made of this policy of open-market expansion. The first, which the member banks were inclined to stress, was that through open-market purchases the reserve banks were brought into competition with the member banks, while at the same time the maintenance of outstanding reserve-bank credit at a relatively high level when general business was declining, tended to keep money rates unduly low. The second criticism is the general one that the policy of open-market expansion has virtually constituted inflation and an interference with the normal "contraction" of credit that would have characterized the market had the reserve system remained out of the investment field.

But here again we are not so much concerned with the merits of these criticisms as we are with the specific proposal which they have engendered, namely, that the reserve banks be limited by law to rediscounting for their member banks. Were such a provision to be enacted it would mean practically a revolution in the whole philosophy of the Federal Reserve System and its purpose.

Scope of Reserve Bank Powers

THE main powers and purposes of the reserve banks are set forth in Sections 13 and 14 of the Federal Reserve Act. Section 13, it will be recalled, concerns itself with the direct relations of the member banks and the reserve banks, the carrying of reserve balances, the rediscounting of bills, advances on member banks' own notes, etc. Section 14, on the other hand, is concerned with the open-market operations.

An examination of Section 14 will reveal that it is made up of a series of provisions. To the uninitiated these different provisions seem unrelated, but to the understanding they bespeak an ingenious attempt to bring together the various things that may be regarded as essential to the protection of the nation's reserves. These provisions may be enumerated as follows: Open-market purchases of cable transfers, of bankers' acceptances and of eligible bills of exchange; dealings in gold coin and bullion; the purchase and sale of government and other

securities which the reserve banks are permitted to hold; the purchase and sale of commercial paper from and to member banks with or without the member bank's indorsement; establishing with the approval of the Reserve Board rates of discount; opening and maintaining accounts abroad, appointing correspondents and establishing agencies abroad for the purpose of handling bills of exchange; and, finally, carrying accounts in this country for foreign correspondents.

It will be observed that in these provisions stress is laid on the international aspects of banking and exchange, and it is in this field that the main purpose of Section 14 must be sought.

Faults of the Old National Banking System

TO bring out this point it will be well to recall some of the criticisms made of our banking system in the "good old days" before the Federal Reserve System. The report of the National Monetary Commission—familiarly known as the Aldrich Commission—enumerated seventeen major criticisms of the old national banking system. These criticisms covered: scattered reserves and the "dead-line" reserve requirements; lack of means for strengthening reserves; inelasticity of currency; absence of means of cooperation by banks; no domestic clearing system; no standardized commercial paper; no control of discount rates; lack of uniform banking standards; no open discount market, etc. With respect to one of these criticisms, it will be useful to quote the commission verbatim:

"We have no instrumentality that can deal effectively with the broad questions which, from an international standpoint, affect the credit and status of the United States as one of the great financial powers of the world. In times of threatened trouble or of actual panic, these questions, which involve the course of foreign exchange and the international movement of gold, are even more important to us from a national than from an international standpoint."

In short, this criticism was to the effect that in times of stress we had no means of protecting our national reserves.

Section 14, with its open-market provisions, represents the answer of the framers of the reserve act to this criticism. In this section the framers envisaged a broadly functioning open discount market at home and a program of international operations of sufficient scope to assure some control of the exchanges and of gold movements. Coupled with this was the desire to insure for the reserve system such influence in the development of domestic credit policy as would enable it, if necessary in the national interests, to dictate the final terms on which credit could be extended.

The Importance of an Open Discount Market

THE purely domestic importance of an open discount market to American banking probably requires no particular emphasis. It is a pretty well worn subject. Suffice it to say here that its great purpose is not only to promote the free and easy flow of funds from section to section, as sectional needs fluctuate, but it is also to assure the release to the market of the maximum proportion of available funds and to guarantee the fullest possible use of these funds before resort is had to the expedient of further expansion by the central-reserve agency.

It is the importance of an open discount market in the international field that mainly concerns us here. A broad open discount market in a country like the United States will, when the situation is favorable, be as attractive to the foreigner as it is to the native. This is likely to be of great importance in times of emergency. An increasing need for funds at home will tend to push up money rates, and advancing money rates will attract funds from abroad—as long as prospective purchasers of American paper can have complete confidence in its security and liquidity. This pouring into the American market of foreign money may not only help to ease a strained credit situation here, but it may also serve to stabilize foreign exchange rates and to prevent unnecessary and costly exports of gold.

It was foreseen that the open-market operations of the reserve banks would be a vital factor in the upbuilding of an open discount market. Indeed, it is hardly too much to say that without the open-market operations of the reserve banks no open discount market could have been built up. From the outset the reserve banks have fostered this market. When dealers in acceptances could not find other purchasers, the reserve banks stood ready, on helpful terms, to keep dealers' portfolios from becoming congested. Thus the channels of the market were kept open. Subsequently, if the market demand exceeded supply, the dealers were free to repurchase bills originally taken by the reserve banks and then distribute them among their private customers. The enforced withdrawal of the reserve banks from the open market would thus seriously interfere with its operation and future development.

Necessity for Credit Control

ADEQUATE safeguarding of a country's banking reserves requires some means of finally controlling credit policy. The panic of 1907 brought this home to the people of the United States. That panic resulted from a collapse of confidence, following a period of extravagant inflation and speculation. During that panic money skyrocketed. Foreign exchange went begging; it was said that the very bottom had dropped out of the market. American holders of foreign bills were thus called upon to face heavy losses. Gold was feverishly imported from abroad. But this was a wasteful manœuvre, because in a few months we shipped all the gold—and more—out again. And all this resulted from the rather wild efforts of individuals who were often working at cross purposes. As the Monetary Commission pointed out, our system was based on independent, competing banks, with scattered reserves, and with no means afforded to the banks to get together and to work out a unified policy on the basis of a common national interest. The Federal Reserve Act met this need by centralizing reserves and by endeavoring to give the reserve authorities broad control of national credit policy.

Open-Market Operations Important to Credit Control

IT will probably be readily conceded that the open-market operations of the reserve banks can be made an important factor in the effective control of credit policy. Certainly the Reserve Board itself is amply convinced of this. Thus it says in the 1923 report:

"The results of the year have demonstrated that open-market operations, when wisely timed and well conceived, are, in a larger measure than has hitherto been generally appreciated, capable of giving effective support to the discount policy of Federal Reserve banks . . ."

In general, open-market purchases and sales by the reserve banks "have an effect on the volume of their discounts for member banks." The theory (and apparent practice) is that when the reserve banks buy securities in the open market the funds involved get into the hands of member banks, who are then in position correspondingly to repay borrowings from the reserve banks. On the other hand, the sale of securities by the reserve banks, by absorbing funds from the market, may operate to compel the member banks to replenish their resources by borrowing from the reserve banks. In the words of the Board: "The sale of securities by a reserve bank may thus serve as a test of the degree of adjustment between the demand for reserve bank credit and the outstanding volume of such credit."

The actual relation between total earning assets, discounts and open-market purchases for the reserve system from 1922 to date is shown in the accompanying chart.

It thus appears that open-market operations may insure to the reserve system the possibility of affecting the market irrespective of changes in discount rates. The reserve system may, without touching rates, help to ease credit in times of depression, and to tighten it when a restraint on further expansion is considered desirable. Open-market sales of securities may also be a means of making a given rate "effective." The Bank of England is at times forced to sell "consols" or to send out a broker to absorb excessive offerings of credit when it wishes to make its official rate "effective." The reserve system by holding an adequate sum of investments, may, by offering these securities for sale, substantially accomplish the same purpose.

Open-Market Operations Strong Factor in Foreign Exchange Market

FINALLY, it must be observed that the open-market operations may be made a strong factor in the foreign exchange market—and hence an important influence in the protection of the national reserves. There are times when the supplies of foreign bills flowing into the market are relatively redundant and when their price is cheap. At such times, through judicious purchases, the reserve banks may not only help to hold rates stable, but they may build up a foreign portfolio which can be of great value later on. At other times, when the demand for exchange is expanding, possibly threatening to

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Put the Human Touch Into Every Advertisement

By WILLIAM E. KNOX
President Bowery Savings Bank, New York; President American Bankers Association

Old Indifferent Attitude of Savings Banks Toward Depositors Succeeded by One of Cordiality, Good Will and Service. Advertising Should Contain Some Helpful Beneficial Suggestion to the Reader, Even Though He May Never be a Customer.

UNTIL a few years ago it would have been an impossibility to find any man in the savings bank profession who knew anything about advertising, for it was considered to be anything but ethical for a savings bank to advertise. When I first went into the business, savings banks were extremely austere institutions. Founded to do the kindliest thing in the world, that is, to take care of the savings of poor people, they did it in a most indifferent way. They received a depositor's money as though they were doing him a favor. The tellers and clerks treated the depositors as though they were beneath them. I, myself, heard a depositor, an old Irish woman, say to a teller who had been snappish with her, "Arrah! Keep a civil tongue in your head! It is the likes of me that keeps the likes of you in your place!" In that caustic and well-deserved comment she had summed up the whole situation in a nutshell—that those of us who were employees held our places because of the depositors.

Until within the last decade, no savings bank ever advertised other than its semi-annual dividends, and then in the briefest possible form. But as times changed, as the commercial banks began to open savings departments, compound interest departments and departments that reached out for the small deposits, we found that we were up against what might prove to be competition. And it began to dawn upon some of us that possibly it might not be a bad thing to tell the public what we gave in the way of service and to let them know our position in the community.

The Old Attitude

IN the old days in the bank there was nothing warm, nothing cordial, in the attitude toward the customer, but as the years went by those who worked at the windows got on friendly and kindly relations with the people, and here and there there was some man who got so close to the people that they began to tell him their personal affairs and ask for his advice.

We had one man in our own bank, a German by birth who came to this country with his brother when he was seventeen. He enlisted in the cavalry regiment and fought in almost 100 engagements in the Civil War. He finally drifted into the Bowery Savings Bank as porter, but that man was so human, so kind and so approachable that when we gave him the information window to look after, we found he made real friends of the people who came to his desk. When he died, he had thousands of friends, which he had made in his human contact with people at the bank.

That set some of us to thinking. We thought that what one man could do in an institution, every man could do in an institution, and of late years the savings banks have been stressing the human element. I do not care how able bank officers may be, if they cannot get into human touch with the depositors, the officers will never make an outstanding success of the bank.

This competition with the other banks awakened us. By and by we began to do a little advertising, but in the early days our advertising was cold. It was very formal. It was a statement of assets and surplus with a list of names of the officers and an imposing list of directors and trustees. But we have struck what we think is a better way of approaching people. We approach them with a message that will interest them, irrespective of the fact that it is a message given to them by a bank.

Advertisement on Life Insurance

RECENTLY we approached them along the lines of life insurance. "This bank believes," we said in the advertisement, "that there is nothing more important in an individual's entire financial program than a proper amount of life insurance." We also said we would be glad to be of service if we could. That advertisement has brought us a torrent of comment from life insurance men, as well as hundreds of inquiries asking about life insurance. In a general way we advised each inquirer, not mentioning any company, but pointing out the advantages of life insurance.

In addition to that, we are trying to get as close as we can to the foreign element. That part of our population is one of the great problems in the city of New York and in all the great manufacturing and business centers. A mass of foreigners come here who get together in groups, but who do not get any real touch of Americanism. They are just as Russian or Italian, ten or twenty years after they come here, as they were the day they came, because nobody appears to take any particular interest in them, except in a patronizing sort of way, through charitable associations. The work of these associations is good work, but when an institution like a savings bank begins to take an interest in the problems of such people and makes them feel that it is willing to listen to their troubles, willing to advise them and to be a sort of big brother to them, there is no better Americanization work than that being done, and that is the kind of work the progressive savings bank is starting on.

We advertise that if they will come to us with their troubles, we shall be very glad to give them the best of our advice and to help them if we can.

A man came into our downtown office the other day who wanted a steamship ticket for a friend from Southern Russia. An agent wanted to charge him $175 for a ticket. We got him the same accommodation on the steamer for $110. We saved him $65, but we did more than that. We opened his eyes to the fact that Americans were decent enough to want to give him a square deal. That will do more good in making that fellow a good American citizen than any amount of "high-brow" talk.

When they get a little more money than the savings bank can take care of, we are willing to advise them what they can invest it in, or better what NOT TO INVEST IT IN. Fifteen thousand people have consulted us on affairs of just that kind—business affairs, affairs connected with getting their citizenship papers, with getting passports and transportation for their relatives. We are touching them in a very human way. We feel we are doing our little bit toward making every one of these people a better American citizen.

So we abandoned the idea of simply advertising the Bowery Savings Bank as having such officers and so much deposits and that we pay so much interest, and now we try to put the human touch in our advertisements. In carrying this principle out, we see that every piece of advertising copy is of specific service to the reader. It should contain some helpful suggestion that may be beneficial to the reader, whether he ever comes to the bank or not.

A man came into our Forty-second Street office who had read one of our advertisements. He said, "Here is my problem. I have got about $20,000 that I do not know what to invest in. I might as well tell you

the whole story. I am a hard drinker, and I want you to suggest something or other that I can put this money into where I cannot run and get it when I want it. If I have it where I can get it, I will blow it in the first time I go on a 'toot'."

If we can find something for that man to invest his $20,000 in, where he cannot get hold of it to blow it in, we will have done him a real service. If we can do that, we are doing advertising that is worth while. It is easy to buy newspaper space, but we cannot buy the goodwill of a man unless we do something for him or show our willingness to do something for him.

In every advertisement we print we try not only to buy newspaper space, but to buy the good-will of every person who reads it, and we think we are succeeding. The savings banks are blazing out a new way of serving the people. We have no ax to grind; we do not want to make any commission out of people who come to us for advice; instead we are there as public servants to do whatever we can to help them along.

An Offer of Unselfish Service

The Safe Place for the Foreigner

IF the savings banks and the business banks, too, in the City of New York and in the other industrial centers all over the country adopt this attitude toward our foreign fellow-citizens and those about to become citizens, this policy will give the foreigners an entirely different view of Americanism. They will not feel that they are being exploited. In most cases where they are exploited, it is not our American-born citizens who exploit them, but the foreign-born citizen, who lives in his neighborhood and who is shrewd enough to see that through their ignorance of American ways they are easy prey.

If we can show them that the natural place for them to go is to the bank, we have done a great thing for them and incidentally we have done a great thing for the bank.

I believe it is this changed attitude on the part of the banks in the last few years that has resulted at least in part in the tremenous growth of deposits that has taken place in the savings banks since the war. There has been a different spirit breathed into the relations between the depositors and the men on the other side of the counter. We would discharge a man in a minute for discourtesy; in the old days we took it as a matter of course.

A little hairdresser said to a woman customer: "I love to go into the bank. From the man at the door to the man who waits on me at the window, everybody is kindly. Everybody is courteous and the place is beautiful. I go in the longest way, stay as long as I can and go out the longest way. I like to be in the place." That is good advertising, and we are not paying for newspaper space to get it.

We are equipped to advise people on life insurance, on investments, on home buying, on the education of children, on travel and all sorts of things. Many of the banks have a woman whose business it is to meet other women, especially young married women, and advise them on their housekeeping problems. She will tell them how much to spend for rent, clothing and other things and how much they ought to try to save. That is all practical work.

We have advised over 15,000 people during the past year. Most of them were very much in need of advice and were very grateful for it.

That would all have been considered absolutely foreign to the work of a savings bank years ago. It is not now. With the advertising through the newspapers, very much of it through the foreign language newspapers, and the efforts that we are making in the foreign communities to work up a feeling of friendliness and kindliness, we are accomplishing something. That is the real work of the savings bank. I would very much rather, personally, have a comment from a girl like the little hairdresser, that she liked the atmosphere of the place and liked to come in there, than to see the bank run ahead two or three million dollars any month, because that comment shows we are getting next to the people.

There is a lesson on advertising in all this: Humanize the advertisements as much as possible; try to get people to believe that outside of the business they may bring, we have a real interest in the man whom we hope to get as a depositor or a customer of the bank.

Points by Secretary Mellon on Taxation

THE problem before us now is not so much one of tax reduction as of tax reform. The attention of Congress should be directed principally to the excessive surtax rates and the confiscatory estate tax rates. The gift tax is unworkable and unduly hampers legitimate business. The publicity provision in the revenue law, in my opinion, is a mistake of policy and will be detrimental to revenue.

Taxation should not be used as a field for socialistic experiment or as a club to punish success, but as a means of raising revenue to support the government.

THE enemies of the income tax are not those seeking to reduce its excessive rates, but those who insist that the high rates, which have proved economically incorrect, shall remain.

The solution of the tax problem lies not in passing more laws, but in adopting laws with more reason.

The importance of getting our taxing system on a sound basis is not a subject which with safety to our future can be long postponed.

The adoption of the solution of the tax-exempt evil by taking from it the wholly artificial attraction of high income taxes on other investments is within the immediate power of Congress.

It is difficult to imagine any one thing which would be a greater spur to taxpayers to avoid a taxable income than the threat that the amount they pay will be pilloried.

Three Evils of Competition

By W. R. MOREHOUSE
Vice-President Security Trust and Savings Bank, Los Angeles

The Dangerous Depositor, the Unprofitable Account and the Customer Who Demands an Unreasonable Amount of Free Service. By Group Cooperation the First and Last May Be Controlled and the Loss on the Small Accounts Stopped.

THE dangerous depositor is the person who keeps just within the law. He must be constantly watched by his bank. He thinks nothing of kiting checks, of drawing on doubtful or uncollected funds, or of habitually drawing checks in excess of his balance. He postdates his checks and trusts to luck that some of them will slide through and be paid before due. His bank has lost confidence in him and has placed a danger signal on his ledger sheet. The bank knows that it should get rid of him, but goes on from day to day tolerating his account. When finally his banker feels that he cannot afford to take chances on him any longer, he musters his courage and suggests to him that he make other banking connections.

This dangerous individual then puts on a bold front and goes across the street or around the corner to another bank, and there he is received with open arms. He is told to make himself at home, and that if there is anything the bank can do for him it stands ready and willing to be of service.

Congratulating itself upon securing another depositor, bank No. 2 may or may not look up his past. If it refers a specimen of his signature to bank No. 1 it comes back in due time marked "signature agrees with the one in our files." If additional information is requested the former bank may side-step all incriminating statements. Of course there are exceptions to the general rule in this regard, and in rare instances, back comes a warning to "take no chances." But bank No. 2 tolerates an undesirable depositor and, in some respects, a dangerous person. Eventually it, too, reaches the end of its patience, loses its nerve and out of fear that it may lose through the unbusinesslike methods of its depositor, it invites him to move on to other pastures.

Many Banks Lose on This Account

ONCE more he repeats the operation. At bank No. 3 he finds a cordial welcome in pastures green. Again the services of another bank are laid at his feet. And so the process of moving on and on is repeated, the dangerous and unprofitable depositor finding a safe haven and a cordial welcome in most any bank to which he offers his business. Bank after bank goes on losing money on his account. And why is it possible for a dangerous person to open an account in most any bank? Keen competition and the lack of cooperation between banks is the answer.

If banks would cooperate in the handling of the dangerous depositor, it would be impossible for him to exploit the services of our banks. Let us take a hypothetical case: There are six banks in the City of Blankville. By agreement each bank at the close of business each day forwards to the secretary of the group or to the secretary of the Clearing House in cities where clearing house associations have been established the names of depositors found to be dangerous or undesirable and whose accounts will be closed out within a few days. Only names are used, and the list is confidential among the bank members. If additional information is desired, the bank desiring it applies direct to the bank reporting the name.

Can you imagine the First Trust & Savings Bank of Blankville opening an account for O. Beware after seeing his name on a list turned in by the First National Bank? No bank knowing O. Beware to be an undesirable depositor would open an account for him. Cooperation among the banks of Blankville then will shut this man out of an account; without it, he could easily open an account in the bank of his choice.

Why should banks continue to transact business with the dangerous depositor, entailing unnecessary expense and subjecting themselves to probable loss when a clearance of the names of undesirables will solve the problem?

The Unprofitable Account

BANKS generally are now reaping a harvest from seed sown in the past. "Open a checking account and pay your household bills by check" has been the admonition of banks to the public for years. Thousands of dollars have been spent advertising the merits of household checking accounts. Judging from the number of small checking accounts on the books of our banks "advertising pays." Every seed seems to have fallen upon fertile soil.

In no sense is the public to blame for people have simply accepted the invitation. Millions of unprofitable checking accounts came in response to ill-advised advertising.

Every bank has unprofitable accounts. Some banks have a much larger percentage of this type of account than other banks, depending upon the extent to which they were solicited and encouraged, and today many banks are throwing good money after bad by advertising for this class of business. In other words, they spend profits made on profitable accounts in order to secure more of the unprofitable variety. They are growing weeds instead of flowers.

I venture to predict that before many years our bankers will become so alarmed over the loss which they are sustaining on unprofitable accounts, that not only will they cease to advertise for this type of business but will decline to accept accounts which are certain to prove to be an expense.

Certain banks have been analyzing their accounts for years. They have sorted the profitable from the unprofitable. They know as a matter of good business that certain accounts should be discontinued. They wish they did not have so many but in most cases they have continued to wish, not having the courage to close them out or insist that they be built up to a profitable size, or pay a monthly service charge. As the old saying goes: "They have the bear by the tail and are afraid to let go."

Some banks are hesitating to set their unprofitable customers adrift, for like the dangerous customer, the unprofitable one quickly finds a haven of refuge in the nearest bank, where he opens a checking account and receives a check book.

Twenty per cent Were Unprofitable

A LARGE bank in a western city decided to close out its unprofitable business. Its bookkeepers were put to work analyzing its accounts. They were told to ferret out every unprofitable account and list it for treatment. In due time a long list of unprofitable depositors was laid on the cashier's desk. The number was almost overwhelming, more than 20 per cent of the customers of the bank had been listed as being unprofitable. The cashier saw there the accounts of doctors, musicians, school teachers and many others, whom he recognized as honest, upright people, men and women of influence in the community. There were those who were buying homes on the installment plan, and many others who were trying to make good, but whose accounts nevertheless were unprofitable. Of course, there were others which were undesirable. On first impulse the cashier decided to strike from the list his personal friends and persons known to him to be of good reputation. Then the list was passed on to his associates, and they cancelled other names. As a matter of precaution he reviewed some of the accounts of persons whose accounts were still listed either to be closed out or built up. Among them were ac-

counts in which the average balance, while not large, was fair. He then took a step further and reviewed some of the paid checks to see for what purpose they were drawn, and this enabled him to reach the conclusion that in the main they were used to pay bills. This convinced him that the small checking account was a great convenience to many people—a service for which a monthly fee to cover cost of upkeep was justified and entirely reasonable.

The Cashier Weakened

CERTAIN customers were called in for an interview. Each was diplomatically handled by an officer of the bank. The unprofitableness of the account to the bank was pointed out and the depositor requested to increase his balance or agree to pay a small service charge. Some cheerfully agreed to the charge, stating that it was equitable, others resented the suggestion, withdrew their balances and left displeased, only to enter the portals of the nearest bank.

When he saw his customers transferring their business to a competing bank the cashier weakened. People whose faces had been familiar around the bank for years were transferring their loyalty and good will to another institution. The cashier had been years in acquiring these same depositors, and now he was driving them away. It was competition that was interfering with the execution of his plans, and although he fully realized that the business he was losing was unprofitable his plan of elimination was forthwith discontinued without comment and the list filed.

This case is one of hundreds. Many banks have started out to clear their files of dead timber—of unprofitable accounts, but have discontinued upon seeing their customers accommodated at a nearby bank.

The Solution

SECURE the cooperation of every bank within a community to the end that the same process or treatment operates in all banks at the same time.

By group agreement or by clearing house regulation fix a minimum monthly balance. If an account is drawn below this limit make a service charge, as agreed upon by the group. Some groups fix the balance at $50, others at $100, and others as high as $300. Some groups make a monthly service charge of 50 cents, others $1. Having reached an agreement between banks, the terms of the agreement should be given wide publicity in the press and by posters displayed in the banks. A copy of the terms should be pasted in commercial pass books as fast as presented.

The next step would be for every bank advertising for small checking accounts to qualify their advertisements with the statement that a monthly service charge will be made on accounts that are not self-sustaining—that this charge is to cover cost only, and that the bank is glad to render this service without profit to itself.

Every depositor should be given a reasonable time in which to build up his balance before a service charge becomes operative. He should be encouraged to do this, rather than encouraged to pay the charge and make no such effort.

Cooperation among banks will solve the problem, while individual effort will most likely fail.

If our banks will spend as much time and money educating the public to the justice of a monthly service charge as they have spent in the past urging the opening of small checking accounts regardless of their size, and the drawing of numerous small checks, the time will come when a service charge will be expected, and being expected will be paid cheerfully.

Unreasonable Amount of Service

EVERY bank has depositors who want more in the way of service than they are entitled to receive. Their balances are mostly float; in fact, they are actually doing business on the bank's capital without the bank realizing it. Such customers deposit out-of-town items, and if they have not already drawn checks against these items they look around for immediate investments at good rates of interest. They leave installment contracts with their banks for collection, and because the bank charges them 15 cents per collection to cover the cost of notifying the payor, and notifying them of the payment, and keeping books, they raise objections. They make business appointments in the bank's lobby to save renting an office; they use the bank's free stationery, and in some instances ask for free postage stamps. They call for business-size check books and demand that their business card be imprinted thereon free. The bank asks them to pay for the cost of this imprinting, and again they object. Ten years ago a depositor had to have a good account in order to obtain this service free, but now he usually can succeed by threatening to transfer his account to another bank if his request is not granted.

Again—Cooperate

IF banks are to solve this problem they must cooperate with one another. For one bank to undertake to correct this condition individually is to fail in the attempt.

For example, take the matter of imprinting check books with the name and business card of the depositor. This evil is growing. Even persons with unprofitable accounts are now calling for, and in many cases being supplied with free check books with their business cards imprinted thereon. An ever increasing number of checks with business cards printed thereon are being returned for not sufficient funds.

Certain bankers favor furnishing imprinted check books free to depositors whose accounts average $500 or more; others place the limit as low as $300. Still others would like to offer the privilege to all depositors alike, regardless of balance, but charging every depositor for the cost of this special service. Another class of bankers favor discontinuing imprinting check books altogether. As the use of imprinted checks has become universal, and as it meets with the approval of hundreds of thousands of depositors, it seems to me that the best solution is for all banks in the same general locality to agree on a minimum balance, fix a charge for imprinting checks to be made to customers whose accounts fall below this balance and enforce the agreement. To all whose balances are maintained above the amount fixed, let the service be free. This is fair to all. If a depositor whose account is below the limit wishes to avail himself of this service free, he can do so by building up his account to the required balance.

A few years ago certain stores hit upon the idea of furnishing a free shine service to all persons purchasing shoes from them. The plan helped sales slightly, but it hit profits severely, for on many pairs of shoes the profits were so small that the free shine service absorbed all. At one time extra shoe strings were given with every pair of shoes purchased; now the customer who wants extra strings pays for them.

In the past ten years banks have gradually increased the variety and quality of free service, regardless of the fact that it has meant decreased profits. In defense of this action some bankers contend that it has meant more business, which may be true, but there is a limit beyond which banks can safely afford to go; besides, the person whose business is already carried at a loss is not entitled to a lot of free service.

Every account should show a profit over a period of years, and any account which is not self-sustaining should be treated.

I have called attention to three problems which are cutting net profits. Individual effort by a bank here and there to correct these abuses is a waste of time. Spasmodic and intermittent campaigns even by small groups of banks are only partially effective. Closer cooperation is the need of the hour. Without it banks will go on throwing away a portion of their earnings in pursuit of business which at once becomes a liability and an expense.

Limited to Rediscounting

(Continued from page 362)

carry rates to the export point, the reserve banks can draw on their foreign portfolios and by replenishing the supply of foreign exchange in the open market can not only add to their own profits, but by helping to stabilize rates can assist commerce and may effectively check gold exports.

The Practical Question

It would thus appear that the proposal to limit the activities of the reserve banks to discounting for their member banks would entail consequences that are far-reaching. Certainly, as stated at the outset, such action would imply an almost complete overturn of present reserve-system philosophy. Apart from judgments as to the particular applications of such philosophy, the practical question to be decided is whether the expected gains would compensate for the certain as well as the reasonably probable losses.

Postal Savings

THE amount of postal savings due depositors at the close of the fiscal year, including outstanding principal represented by certificates of deposit, accrued interest payable on such certificates, and unredeemed postal savings stamps, was $136,464,898.03, as follows: Certificates outstanding, $132,814,-135; interest payable, $3,587,872.23; postal savings stamps, $62,890.80.

Key to the Berlin Bourse Gold Quotation List

By ROBERT CROZIER LONG
Correspondent of the London *Economist* at Berlin

Thus Far the Stock of Only One Corporation Has Been Quoted in Gold Marks. Preliminaries to the New Plan of Quotations Are Many and Process Is Slow. Comparative Quotations Under Three Systems Listed. Causes of Confusion.

IN the last week of October occurred in Berlin a business event of no great magnitude in itself which is an important link in the great chain of financial adaptations resulting from Germany's return to a gold-secured currency. On October 29 the Berlin Bourse for the first time since 1914, published a stock quotation in gold marks, the quotation of only one stock out of the hundreds officially quoted.

In the next few months will gradually appear gold quotations for other stocks until, as before the war, all Bourse prices without exception appear in gold marks. This is almost the last link in the chain of adaptations. A year ago, although then neither coined gold nor a gold-secured currency existed, taxation assessments and all commercial accounts were put on a gold mark basis, while payments continued to be made either in "rentenmarks," which were only *equal to* gold marks, or in units of one trillion paper marks, each trillion being *equal to* a gold mark. In October, 1924, the Reichsbank, the Prussian state bank, and the commercial banks, went over to accountancy in gold marks, the gold mark now being the effective gold-secured new "Reichsmark" created under the Dawes Reichsbank reform. And now stock quotations are following. As they are following only gradually, and as the transition is very complicated, only a clear knowledge of the whole process can prevent confusion, and possible loss to foreigners interested in German securities.

"Stocks" a Misleading Term

FIRSTLY, a distinction must be made between state and private bonds (*Anleihe* and *Obligationen*) on the one side, and corporation shares (*Aktien*) on the other. For the latter "stocks" is a misleading title, because all German corporation capital is divided up into unequal shares of fixed values, similar to American shares. But instead of issuing shares of uniform nominal value corresponding to the American $100 share, German corporations issue shares of greatly varying values. The law of 1884, passed in order to exclude small capitalists from the Bourse, forbade the issue of shares of lower nominal value than 1000 gold marks, or $250, but imposed no maximum limit. Some individual corporations issue different categories of shares, each with its own nominal value, and some old corporation shares are still expressed in the obsolete thaler currency. No person can therefore tell the value of a particular share without looking the matter up.

On German Bourses, however, this causes no confusion even to persons who do not know the nominal value of a share dealt in. Confusion is avoided by quoting all shares at so much per cent per nominal value of 100 marks. Before the war a quotation of "105" meant a price of 1050 gold marks for a 1000 gold-mark share; of 5,250 gold marks for a 5000 gold-mark share. A quotation of "170" meant a price of 1700 gold marks for a 1000 gold-mark share; of 2550 gold marks for a 1500 gold-mark share. The quotation of over "100" meant that a security, irrespective of the nominal value of the share, was above par, a quotation of under "100" invariably meant below par.

This system was retained during the whole post-war depreciation years. But as the currency depreciated, Bourse quotations rose just as did the prices of real estate and commodities. As industrial corporation stocks represented real values—land, buildings, machinery, goods, etc.—their quotations rose enormously. Bond quotations rose more gradually, because in law bonds remained mere paper-mark claims whose gold value depreciated in proportion to the currency depreciation. In fact, bond quotations could not have risen at all had not speculators counted on their "Aufwertung," that is, their partial restoration by new legislation to the rank of gold-mark claims.

Cumbersome Quotations

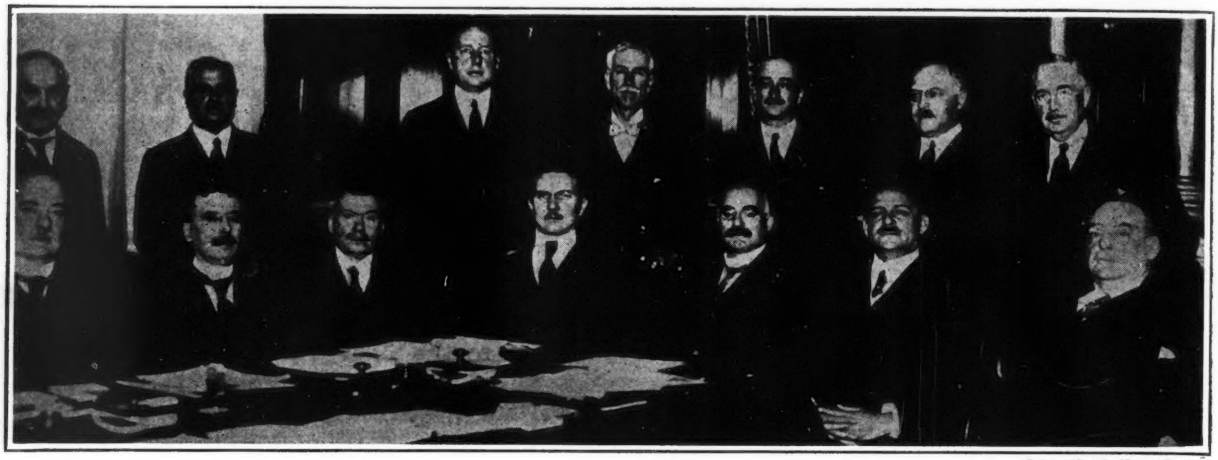
FOR both classes Bourse quotations continued to be in paper marks, because that was the only legal tender. Even the "rentenmark" was not, and is not, legal tender. Ultimately Bourse quotations of bonds rose into billions of paper marks per 100 marks nominal, and those of stocks rose into trillions of paper marks, also per 100 marks nominal, these terms being used in the American sense of 1000 millions and 1,000,000 millions respectively. Thus at time of this writing (early November), War Loan quotes 490,000,000,000 paper marks and Hamburg-American Line 25,100,000,000,000 paper marks, each per 100 marks nominal.

As quotations became ever more cumbrous the long trains of cyphers were abandoned. But from bond quotations three less cyphers were struck off than from stock quotations, so that War Loan quotation appears as "490," which means 490 billions, equal at exchange of 1 trillion paper per 1 gold to 49 gold pfennigs, or approximately 12 cents, whereas Hamburg-America, though quoted at only "25.10," is 25,100 billions, equal to 25 gold marks 10 pfennigs, or approximately $6.

Such is the situation on the eve of the general change over to quoting in new Reichsmarks, or gold marks. If merely a change in the quoted currency were to take place, the process would be quite simple; it would be sufficient to divide the current paper mark quotation by one trillion in order to get the new gold mark quotation. And that indeed applies to bonds, because no change whatever in their status will precede the transition to gold mark quotation.

Very different is the situation with corporation shares. With these the transition process is so complicated, and differs so

> ## Stocks in Gold Marks
>
> *WITHIN a few months the Berlin Bourse is expected to issue a new quotation list in gold marks.*
>
> *The accompanying article by Robert Crozier Long of Berlin, should be an aid in accurately interpreting the financial meaning of the new quotations.*
>
> *At present the stock of but one concern is quoted on the new basis.*
>
> *Mr. Long clearly and interestingly explains the process of scaling down valuations to conform to the requirements of the new financial era into which Germany is now entering.*
>
> *This article should aid also in understanding "the apparent vagaries of individual securities which will suddenly jump in quotation five, ten, and twenty, or even more times."*



International News Reel

The International Advisory Board of the newly formed German Reichsbank. Seated, left to right, are Franz V. Mendelsohn, Charles Sergeant, Franz Urbig, Dr. Hjalmar Schacht, the German head of the Bank; Dr. G. Bachmann, Hans Remshard and Emil Francqui. Left to right, standing, are Max Warburg, Louis Hagen, Prof. G. W. J. Bruins, Sir Charles Addis, Carlo Feltrinelli, Oscar Wasserman and Gates W. McGarrah, the American member, who is chairman of the board of the Mechanics and Metals National Bank of New York.

enormously as between different corporations, that Germans outside banking and Bourse circles follow the changes with difficulty. The difficulty arises from the fact that before a corporation can secure a Bourse gold mark quotation for its shares its whole finances have to be converted from a paper mark to a gold mark basis. This does not merely mean converting old paper mark totals into new gold mark totals at the convenient exchange of one trillion to one. It means in all cases a complete revaluation in gold marks of assets and liabilities, in practically all cases a drastic scaling down of the paper mark capital which was inflated during the bad-currency years, and simultaneously a drastic reduction in the nominal value of the shares. The new gold mark shares will, like the prewar gold mark shares, have different nominal values in different corporations, but as the ratio of scaling down in every corporation is different the new gold mark shares as a whole will have no uniform proportion to the old.

Gold Mark Balance Sheet Law

BEFORE making this clearer by concrete examples, it must first be shown how the change has been brought about. The change came under a so-called Corporation Gold Mark Balance Sheet law of December 28, 1923, passed shortly after the stabilization of the currency. The provisions of this law bearing upon the present subject are:

1. Before a fixed date, since extended to November 30, 1924, all corporations must compile and publish gold mark balance sheets.

2. If in this process a corporation's present capital is found to exceed its net assets after deductions of all liabilities, then the capital must be scaled down, or the assets through assessment brought up to the value of the capital, or the balance be restored by creation of a "capital depreciation account" on the assets side. All these methods may be used in combination. (In practice, the system adopted is to scale down capital).

3. The new capital of a corporation must be at least 5000 gold marks.

4. The scaling down of the paper mark capital to a smaller gold mark capital is to be effected by a proportionate scaling down of the nominal value of the single shares. The smallest permissible share is to be 20 gold marks. If, however, the scaling down of capital is so severe that the new shares would have a lower nominal value than 20 gold marks, the corporation may combine two or more old shares in one new share. (Example: Old capital 2,000,000,000 paper marks, nominal value of old shares, 1000 marks. New capital, 20,000,000 gold marks. Scaling down ratio, 100 to 1. This would reduce the 1000 mark shares to 10 gold marks, so that to observe the 20-mark limit two old shares must be combined to make one new.)

The process of preparing and issuing gold mark balance sheets is slow, and the biggest banks and corporations will not finish the work until the latest permissible date. But several hundred concerns, of which some score have quotations on the Berlin Bourse, have already issued the new balance sheets. In these balance sheets their former paper mark capitals and paper mark shares appear scaled down by every conceivable ratio. One corporation has reduced its capital to the 1-5000th part, and a few, which did not inflate their capital during the depreciation time, or but very little, have not scaled down at all.

Three Kinds of Quotations

ALTHOUGH thus considerable progress has been made with the gold balance sheets, only one corporation, as stated, has yet obtained a gold mark quotation for its shares on the Berlin Bourse. The reason for this is that after a corporation has its new balance sheet ready and sanctioned at a shareholders' meeting, it must re-apply for the privilege of a Bourse gold mark quotation, submitting to the Bourse Committee the balance sheet and other data and fulfilling practically the same formalities as does a new corporation. This takes time. In the meantime shares of companies which have issued gold balance sheets continue to be quoted in paper marks beside those of companies which have not issued them. Therein lies the present confusion. In the same Bourse list are quoted (1) paper mark shares of concerns which have not yet issued gold balance sheets and whose shares are still unscaled-down paper mark shares; (2) new gold mark shares of companies which have completed this work but which have not yet been granted a gold mark quotation—these shares are still quoted in paper marks; and (3) new gold mark shares which have been granted a gold mark quotation—this, as stated, is so far the case with only one corporation.

When the whole process is completed by all Bourse-quoted corporations, the position will be as follows:

1. The new gold mark shares will continue to be quoted at so much per 100 marks nominal.

2. The 100 marks nominal will, however, not necessarily be a share. It will be a share only when the old paper mark share, which was at least 1000 marks, has been scaled down exactly to 100 gold marks. This will fairly often be the case, because 1000 marks was a very common value for pre-war shares, and 10 to 1 has been adopted as a very common ratio for scaling down. Most new gold mark shares will range from 20 gold marks upward, always being in round numbers. A new Bourse quotation of "105" will always mean 100 gold marks nominal, and 105 gold marks will therefore buy one-fifth of a new 500 gold mark share, half of a new 200 gold mark share, and five new 20 gold mark shares.

Comparative Quotations in Three Periods

TO make the process clearer we will give the history of a hypothetical corporation in the three periods in question:

Pre-War Gold Mark Period. Capital, 1,000,000 gold marks consisting of 1000 shares of 1000 gold marks each. Bourse quotation, 30th July, 1914, "175," meaning 175 gold

(*Continued on page 375*)

Little Legislation in This Session

Appropriation Bills to Pay the Running Expenses of the Government Will Consume Most of Congress's Time During the Short Session. But There Are Many Subjects Which Will Be Brought Up and Discussed Though Not Expected to Be Rendered into Laws.

A CALM and temperate session of Congress was in prospect when the gavel sounded in the national capitol on the first day of December, reconvening the 68th Congress. The passage of the appropriation bills, carrying the grant of funds to pay the running expenses of the various government departments, promised to consume most of the time that the House of Representatives and the Senate would have at their command before the short session automatically expires on March 4.

President Coolidge, returned to power with an impressive majority in the November election, interpreted the mandate of the country, as expressed in the elections, as being desirous of a vacation from legislative tinkering. With the hearty support of the administration leaders, he made known before Congress reassembled that he had no intention of calling an extra session of the two houses before the end of the fiscal year. The leaders in Congress, pointing out that there was less than three months of legislative days before adjournment, held to the belief that routine work would loom up as the outstanding accomplishment of the session, but admitted that there doubtless would be a few other measures of appreciable importance added to the statutes.

There is one storm cloud on the horizon, however. The Republicans in the Senate, in caucus, read LaFollette, Brookhart, Ladd and Frazier out of the party. In retaliation, this group may conduct a campaign of reprisal by blocking appropriation bills through filibusters and otherwise crippling the legislative machinery. There was no indication, however, that the Democrats would ally themselves with the radicals in any obstructionist movement.

Unless unforeseen obstacles are placed in its path, the McFadden bill, amending the National Bank Act and resolving the long standing issue on branch banking, will become a law before adjournment. Inasmuch, as a rule, insuring the taking of a vote on the McFadden bill after the expiration of a fixed time in the House of Representatives had been agreed to last June, it was virtually certain that the measure would go through the lower house. It is in the Senate, where cloture is a thing unknown, that the uncertainty exists. Should the proposed amendments stir up the opposition of a small group of Senators, it would be possible for them either to talk the bill to death or force amendments that would make the finished product undesirable. While this development was not anticipated, it was at least an outside possibility.

The administration will not sponsor any other important financial legislation during the present session, Senator Reed Smoot of Utah, chairman of the powerful Committee on Finance, and Representative Nicholas Longworth, the administration leader in the House of Representatives, agreed late in November. The life of the World War Debt Refunding Commission expires on Feb. 1, however, and Senator Smoot made known his intention to seek an extension of the commission's term of power for a further period of years—for either two or more years. Congress will be asked to approve the debt settlements, which have been effected with Poland and other small debtor nations during the recess. This movement doubtless will open up the whole question of international debts, but the outlook is for the continuation of the present policy of seeking to obtain a refunding of the debts owed by France, Italy, Belgium and other countries under the terms of the British settlement.

While the responsible officials publicly express the hope that France, Italy and Belgium will arrange to pay the full amount of their indebtedness, this hope cannot be said to be a real expectation. Though the necessity of bringing the debt question before Congress will lead to a good many high-pitched speeches, there is no way that the United States can force payment, and there is a considerable body of opinion in Congress that it would be best to hold off for a while and permit the debtor nations to reconstruct themselves before pressing for a final refunding arrangement. Congress is still resolutely set against the cancellation of the foreign debt, although there is evident a growing disposition to be even more generous in the matter of terms for the repayment.

Underwood & Underwood

Senator Charles Curtis of Kansas, the new leader of the administration forces in the Senate.

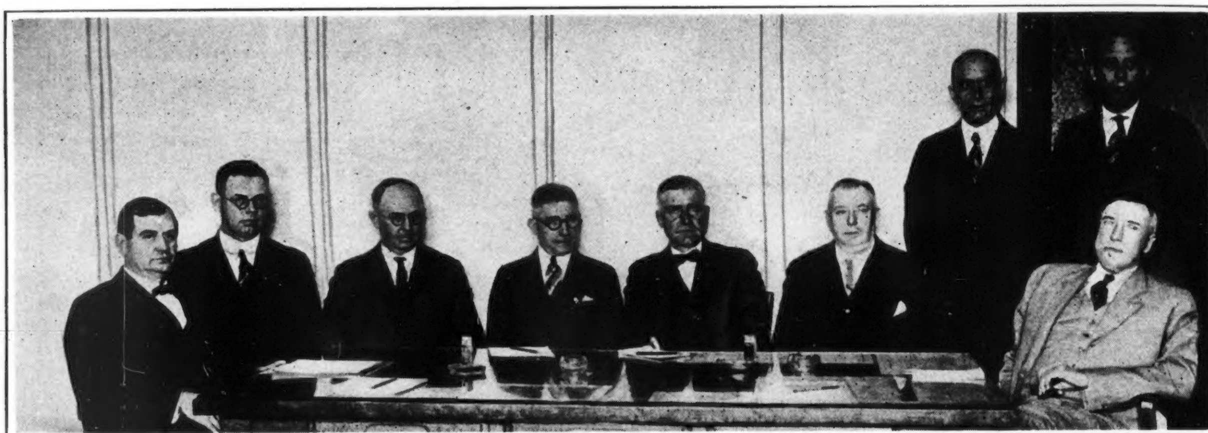
Answer to Muscle Shoals Question

THE question of what shall be done with the Muscle Shoals power project may meet with an answer.

Before Congress adjourned, Senator Underwood of Alabama obtained a unanimous consent agreement that the Senate would take up the McKenzie bill, accepting Henry Ford's offer for the project, which had been passed by the House of Representatives by a large majority on Dec. 3, and keep it constantly before the Senate "until finally disposed of." Mr. Ford, however, complicated the situation during the recess by withdrawing his offer for the power project. Secretary of War Weeks has maintained for some time that the government could obtain more revenue by operating the Muscle Shoals plant and leasing out the power than would be derived by the acceptance of the Ford offer. The Senate Committee on Agriculture at the last session made two reports—one by Senator Norris, providing for government operation, and another by Senator Ladd, favoring the acceptance of the Ford offer. The whole Muscle Shoals question is destined to figure in the news from Washington, with the prospect of government operation of that part of the plant needed for the manufacture of fertilizers and the lease of the surplus power to private interests in prospect.

The action of the Treasury Department in reducing the volume of national bank notes by calling for redemption government bonds bearing the circulation privilege has suggested the passage of legislation by Congress providing that, if bonds carrying the circulation privilege are redeemed, the circulation privilege should be placed upon some other one of the many large issues of Federal bonds. An authoritative statement has been made by the Treasury that it will not seek to redeem other issues, bearing circulation privilege after $118,000,000 in these bonds are redeemed in February, until the McFadden bill passes or until other remedial legislation has been enacted by Congress to improve the position of national banks in their competition with state banks. This assurance may halt the moves destined to be made to prevent the disappearance of the national bank note through the redemption of all bonds having the circulation privilege.

The Postmaster General in his annual report renewed his recommendation for the passage of the bill, raising the rate of in-



Underwood & Underwood

The Agricultural Commission appointed by President Coolidge to map out a program for permanent relief for the American farmers. Left to right, seated, are Howard M. Gore, Secretary of Agriculture; R. W. Thatcher, Geneva, N. Y.; W. C. Coffey, St. Paul, Minn.; Louis J. Taber, Robert D. Carey, former Governor of Wyoming, Chairman; C. E. Bradfute, President, American Farm Bureau Federation; Fred H. Bixby, California. Standing, W. M. Jardine, Kansas, and Ralph P. Merritt, California. The report of this commission will greatly influence the administration's farm legislative program.

terest to be paid on postal savings, but action on the measure at the short session is considered unlikely.

The opposition that developed to the proposed constitutional amendment to ban tax-exempt securities at the last session showed plainly that the amendment cannot be passed by the present Congress. If the maximum surtax rate were 25 per cent, as contained in the original Mellon plan, the need for such an amendment, from the viewpoint of the Federal Government, would pass.

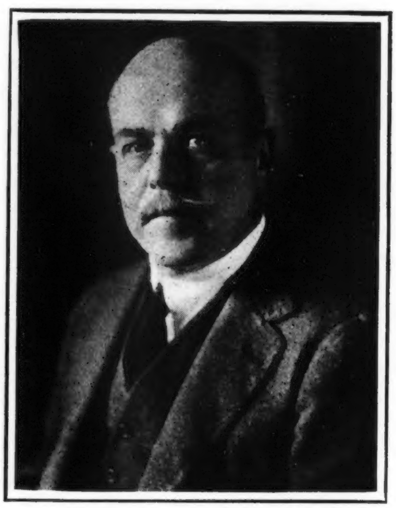
The last Congress also rejected the Treasury's proposal that a taxpayer should not be permitted to take as a deduction in figuring his net income interest paid by him except to the extent it exceeded the tax-exempt interest received by him.

No Time for Tax Revison

WHILE numerous bills are to be introduced calling for a further revision of the tax laws, the administration will not seek to have the Mellon scheme passed by the same Congress that mutilated it. In the first place, time would not permit more than desultory consideration. It will not be known with reasonable definiteness what revenue will come into the Treasury from the income taxes until after March 15, when the first returns are made. President Coolidge and Secretary Mellon have indicated a desire to see how the present law works out before seeking other changes, and authoritative statements have been made at the White House that Mr. Coolidge would not consider calling a special session of Congress to take up tax revision before the end of the fiscal year, unless "some compelling reason" developed. It is not expected that the President would call Congress to Washington during the heat of summer; therefore, seasoned observers do not anticipate that the new Congress will be convened before early next fall, and there is a possibility that Mr. Coolidge will foreswear calling an extraordinary session and allow the legislators a rest until next December.

Scretary Mellon holds that the present problem is more one of tax reform than of tax revision. He hopes that Congress will take the action immediately open to it for stopping the tax leaks through the tax-exempt avenue of legal escape, but will not press for any extensive reform moves.

The unfavorable reaction of the country, and especially in the big centers, to the publication of income tax returns, makes it certain that a move will be made to repeal the section in the Revenue Act of 1924 that directs the collectors to reveal the tax paid by individuals and corporations. A flood of bills seeking to check the activities of the Paul Prys and the Peeping Toms was imminent upon the eve of the opening. The administration leaders, in advance of the President's message, were undecided whether or not a drive would be made to end the publicity feature. If the movement is made, there is sure to be opposition, but those seeking the repeal felt that there was a chance of a compromise being effected with the group advocating publicity to income tax returns that would prevent the publication of the March income tax returns.



Underwood & Underwood

Representative Nicholas Longworth of Ohio, who was scheduled to be the Republican floor leader in the lower house.

Even the present provisions represent a compromise. The radicals wanted to open up the complete income tax return to public gaze so that there would be a full disclosure of the income and offsets. A compromise was reached, whereby publicity would be given only to the name and the amount of tax paid. While the Treasury was steadfastly opposed to this partial annulment of the individual's constitutional rights and President Coolidge was resolutely set against it, it was passed by a big majority. The present Congress cannot do an about face without stultifying itself, although there are some members who candidly confess they made a mistake and indicate the desire to make due amends by wiping it off the statute books.

From the practical standpoint, however, it is not believed that the progressive group will yield complacently. If something can be done that will save their faces, it is not unlikely that the much-assailed section will be altered to conform more closely with what is regarded as general public opinion. The suggestion has been made that a public statement be issued showing the names of taxpayers so that the power be given to certain Congressional committees to inspect tax returns for good reasons.

Prospects for Railroad Legislation

WHILE important railroad legislation is not expected, there promises to be some action affecting the carriers, despite the overwhelming defeat administered to the progressives who assailed the railroads during the past campaign and the widespread indorsement of those who advocated leaving the railroads alone.

Both houses of Congress at the last session passed the Hoch resolution, declaring agriculture to be the basic American industry and directing the Interstate Commerce Commission to "effect with the least practicable delay such lawful changes in the rate structure of the country as will promote the freedom of movement by common carriers of

the products of agriculture . . . including livestock, at the lowest possible lawful rates compatible with the maintenance of adequate transportation service." The Senate amended the resolution as passed by the House, making a conference necessary. During the waning hours the House approved the conference report, but it was pocketed in the Senate and did not come to a vote. Thus all the Senate has to do is to approve the conference report and the resolution gets the force of law. The resolution, of course, is a mere expression on the part of Congress of its sentiment, but the resolution's sponsors feel that the Interstate Commerce Commission would try to effect a reduction of freight-carrying charges on farm products.

The Howell-Barkley bill is bound to come up in the House, but its prospects for passage are not roseate. The measure abolishes the Railroad Labor Board and sets up rather complicated machinery for the mediation of disputes between the carriers and the railroad workers. The public has no representation on the board of mediation, however.

The House at the last session adopted a rule providing that the bill should be considered on the first and third Monday of each legislative month until disposed of. While grave doubt exists that the measure will find enough support to pass the House, Senator Cummins of Iowa, the former chairman of the Interstate Commerce Committee, raised the hope of the sponsors somewhat by stating that he would consent to the modification of the present law, if the public were represented on a new board of mediation to be set up. Even if the bill should pass the House, its chances of going through the Senate in its present form are regarded as remote.

Doubtless there will be other legislation proposed on the railroads, for Senator La Follette and his followers can be depended upon to introduce a mass of bills to "squeeze the water" out of railroad valuations and effect other changes to lower the cost of carrying the people's commerce.

Agricultural Legislation

THE administration's program for the benefit of agriculture will await the report of the commission, appointed by President Coolidge to study the problems of the farm with the view of recommending legislation to improve the conditions of the basic industry. Senator Curtis of Kansas, the new titular leader of the Republican Party, will seek to aid the farmers by permitting co-operative associations to engage in interstate transactions. Senator Capper of Kansas, the head of the once powerful farm bloc, will press the "Truth-in-Fabric" bill, which would require manufacturers of clothes to mark the amount of virgin wool contained in the fabric to be plainly shown. This, it is contended, will encourage the use of virgin wool and improve the prices in the wool market. The ill-fated McNary-Haugen bill, which proposed a price-fixing scheme to raise the price of farm products to a profitable level, will not be revived.

The attitude of the conservative members of Congress on prospective farm legislation was expressed by Senator Curtis, when asked what Congress would do to help the farmer.

"We passed twenty-seven bills at the last session to help the farmer, but there wasn't much improvement until the law of supply and demand brought about a rise in prices through a natural operation," he commented. "All we can do is to help the farmer help himself."

There are two bills that doubtless will receive consideration—the measure to be sponsored by Senator Smoot of Utah, reorganizing the executive departments, and the bill proposed by Senator Edge of New Jersey, raising the pay of postal workers. The joint Congressional committee, which studied the regrouping of executive departments and the creation of the new Department of Relief and Education, was unanimous in its approval of the new reorganization scheme, with one exception. There was a minority dissent against turning over the Bureau of Roads, now under the jurisdiction of the Department of Agriculture, to the Department of Interior. Senator Smoot is confident that the reorganization bill will go through and hopes for the approval of a $50,000,000 building plan for the District of Columbia to provide various Federal agencies with suitable quarters.

President Coolidge vetoed the bill raising the pay of postal workers that was passed at the last session. He insisted that the rates of pay to certain employees, especially those in the rural districts, would be too high and later stated that, if these salaries were brought into line, he would give his approval to the proposed legislation. When these changes are effected, the bill doubtless will go through Congress with marked expedition.

The Recognition of Russia?

FROM the foregoing recital of legislation that is likely to come before Congress, it may be realized that the two Houses will have plenty to keep them busy. However, both Houses will devote hours to various matters arising from the developments of the day. For instance, Senator Borah of Idaho has announced that he will do his utmost to bring about the recognition of Russia by the Coolidge administration. Secretary of State Hughes has resolutely set himself against the political recognition of the Soviet. The President, before the opening of Congress, was expected to renew his stand in favor of American participation, under certain conditions, in the World Court. This question undoubtedly will figure in the debate in the Senate and consume many hours. There are several commercial treaties with Germany and other foreign countries awaiting the approval of the Senate. The desire to steer away from any provision that will later prevent the United States from introducing a system of discriminatory tariff rates as a means of upbuilding the American merchant marine is responsible in part for the delay.

At this stage it cannot be predicted what will grow out of the various investigations, which have been in progress during the recess. The Borah committee investigating the contributions to the political parties will render a report.

The select House committee that conducted an inquiry into the operations of the Shipping Board is due to tell the House what its investigation disclosed and to suggest legislation to help the merchant marine.

The House committee appointed to look into frauds in aircraft building may set forth its findings.

From the financial viewpoint, there are three investigations that are of especial interest, however.

Banks Out of the Federal Reserve System

THE Joint Congressional Committee designated in the Intermediate Credits Act to ascertain why eligible state banks and trust companies have failed to join the Federal Reserve System is expected to render a brief report, setting forth the reasons that are generally known to be the cause of the small banks holding aloof. However, it is understood that the report will give momentum to the movement in favor of the McFadden bill's passage. The report, it is anticipated, will recite that the present national banking laws make it more desirable for a bank to take out a state charter. However, if the McFadden bill should become law, the national banks would be placed more nearly on a parity with the state banks and, inasmuch as all national banks must be members of the Federal Reserve System, the effect would be to bring more small banks into the system. It has been indicated that the report will be brief, but pointed.

It is considered unlikely that the select Senate Committee on the Gold and Silver Mining inquiry will file a complete report.

Senator Couzens of Michigan has headed a Senatorial committee which has been reviewing the activities of the Internal Revenue Bureau, endeavoring to bring out facts showing the inequality of certain taxes and to develop means of improving the tax collecting machinery. Its findings may be the genesis of reforms, but Senator Couzens has not closely identified himself with the administration forces, acting more as an independent.

The stage was all set for the expeditious consideration of the appropriation bills, and Representative Martin B. Madden, the chairman of the Appropriation Committee, was hopeful of sending them through the House before the end of January. The machinery for passing upon the supply bills has been simplified with the introduction of the budget system, so that the needs of the various departments can be passed upon with greater dispatch than hitherto. The appropriation bills distribute roughly three billion dollars among the various government departments, but more than a billion dollars represent interest on the public debt and revenues set aside to provide for its orderly reduction.

One of the first supply bills to come before Congress will be a deficiency appropriation measure, calling for $100,000,000 to purchase bonds for the sinking fund that will be created to pay off the soldiers' bonus.

R. J. Miller, for the past two years chief examiner of the Federal Reserve Bank of Cleveland, has been elected assistant to the president of the Peoples Savings and Trust Company of Pittsburgh. Mr. Miller is a Pittsburgh man, having been engaged in the banking business in that city from 1907 to 1916 when he was appointed a national bank examiner. His special work will be in promoting the mutual interests of the associated banks, namely: Peoples Savings and Trust Company of Pittsburgh, East End Savings and Trust Company, Oakland Savings and Trust Company, Squirrel Hill Bank, Dormont Savings and Trust Company, and the Metropolitan Savings Bank and Trust Company.

National Bank Note's Place in Money System

By JOHN W. HAWKINS

President First National Bank, Lamar, Ark.

It May Be Regarded as the Capital Stock of the System and the Federal Reserve Note as the Current Debt of the System. Fate of the National Note Should Be Determined by Congress. Danger of Taking a Backward Step in Losing Currency Capacity.

SHOULD the national bank note and Federal Reserve bank note (none of the latter being shown in the recent statements of the Federal Reserve banks), or bond-secured currency disappear from circulation in 1930, or by 1938 at the latest?

At first thought the bond-secured currency seems unnecessary, assuming that the Federal Reserve note could take its place, if needed. But how could the country replace approximately $700,000,000 of bond-secured circulation, which would be needed, should such a condition arise, as in 1920 and 1921, when the gold reserve against the Federal Reserve notes then outstanding was nearing the 40 per cent, or minimum, mark?

The recent past record of the capacity of the Federal Reserve banks to supply the needed circulation with Federal Reserve notes during a period of expansion is such as would indicate that other means of circulation should be available at all times.

Relation of Currency and Debts

ONE noted authority on finance has said, in substance, that there should never be a piece of currency in circulation unless there was a debt demanding it; that is, the currency should be cancelled as soon as it has served its purpose of discharging the debt. While this is theoretically true, yet there is a certain amount of circulation—"pocket change"—necessary to take care of the business of the country. There might be a time when a large volume of "pocket change" is needed, and this at a time when the Federal Reserve banks have very little paper, so to speak, eligible as a basis for Federal Reserve note issue—member banks having no need to rediscount heavily—hence making their capacity very limited. Their capacity may be likewise limited on account of a small per cent of gold on hand to eligible assets.

It is the unusual thing that happens which brings trouble. Preparation should be made to meet the unusual condition, as we have no assurance that the bulk of the world's stock of gold will always be on this side of the Atlantic.

It is essential that the currency be as elastic as possible, and, even though not elastic, apparently the bond-secured currency is necessary in a large measure for "pocket change," pay-rolls and cash settlement purposes, with the Federal Reserve note to make the currency system elastic as a whole. Conditions might be even better if the bond-secured currency were also elastic, but this may not be practical. The bond-secured currency, however, might be made elastic to some extent in a similar manner as the Federal Reserve note.

This country will have bonds outstanding for many years, some of which could be used at the prevailing rate of interest with the circulation privilege, which would be very attractive as an investment and a secondary reserve for banks, including the Federal Reserve Banks. If needed, they could be made the basis for currency issue, such currency, however, to be withdrawn from circulation in like manner as the Federal Reserve note after serving its purpose; hence, the elastic bond-secured currency.

A tax or duty could, and should, be placed on such bond-secured currency, so that the cost of its issue would be such that banks would not keep it in circulation for profiteering purposes.

Others might say that there would be less likelihood of inflation, which usually is followed by deflation, if there were less circulation in the United States and, therefore, the circulation should be restricted and kept low. This may be true, but the thing that was hurting the country in 1892 and many years later was a lack of circulation, and the placing of much purchasing power in a few dollars, brought about the unwelcomed idea for a bi-metallic system with free coinage of silver at the ratio of 16 to 1.

The Federal Reserve System has furnished the additional circulation needed, and on an elastic basis, but it now seems unwise to eliminate the bond-secured currency from the country's money system, and thus let the not improbable limited currency-issuing capacity of the Federal Reserve System bring about a serious situation.

Capital Stock and Current Debt

THE circulating currency may be viewed from another angle: Let us class the national bank note and Federal Reserve bank note (or bond-secured currency) and all other kinds of circulation, except the Federal Reserve note, as the capital stock of the money system, which—comparing it with a business corporation—should be kept ample at all times. Then class the Federal Reserve note as the current debt of the money system, to be increased as needed and decreased when not needed, which can be done as the Federal Reserve note is elastic, while all other kinds of circulation are not.

No one looks favorably upon a corporation that withdraws a very large portion of its capital with the expectation of increasing the current debt as a substitute, knowing there are probable periods when there will not be ample capital from that source. Such "capital stock" circulation should not be withdrawn when the recent experience of the Federal Reserve System shows that the "capital" is needed under certain conditions, from which the United States is not immune.

A few banks, perhaps, stay in the national system primarily for the note-issuing privilege, but, no doubt, a large majority are attracted there for other beneficial reasons. The national bank notes should not continue in circulation just because a few banks want to issue them. The question should be settled solely upon its merits as to whether they would be needed should the capacity of the Federal Reserve banks be too limited under certain abnormal conditions to take care of the legitimate demand.

Avoid Inelasticity

THE fate of the national bank note should be determined by Congress, and the people, especially the bankers, should give the same serious thought to this question as they did to the Federal Reserve Act, in order that Congress, the melting pot in such matters, may act wisely.

Nothing should be done that might reduce or limit the total circulation to a point where it may become inelastic so far as practical relief is concerned. A lack of circulation causes business stagnation, if not a panic, as was experienced during a greater part of the decade immediately prior to the passage of the Federal Reserve Act.

If a backward step is taken in America's money system, which may be taken if we fail to keep the currency-issuing capacity of the country at its maximum point, both foreign and domestic banking will suffer, and England will soon regain from the United States her former position of world banker. If the bond-secured circulation must go, a sound, practical substitute should be authorized by Congress, so that the country would not have to depend wholly upon the Federal Reserve note.

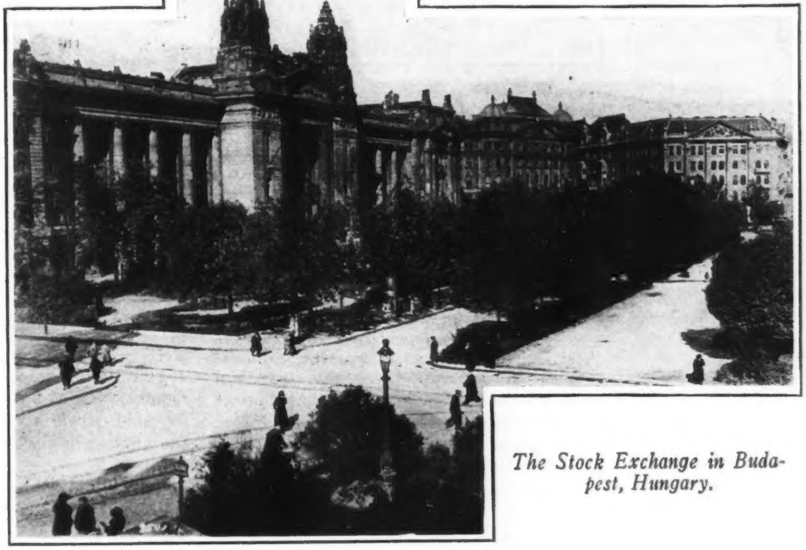
Hungarian Loan Shows Results

By JEREMIAH SMITH, JR.
Commissioner General at Budapest of the League of Nations

Currency Stabilized and Inflation Stopped. Oppressive Restrictions on Export of Foreign Exchange Abolished. Offers of Foreign Capital for Short-time Investments. State Revenues Increasing. Return of Confidence Within the Nation.

HUNGARY lost more by the War than any other country, with the possible exception of Austria. Two-thirds of its territory was taken from it by the Treaty of Trianon. Although much was lost, enough remained to enable the country to be self-supporting, for present Hungary has some 20,000,000 acres of land, nearly three-fourths of which is arable, and only 8,000,000 inhabitants, a condition which exists in few European countries; and, being primarily an agricultural country, it can, under normal conditions, produce enough to feed itself and have an exportable surplus of food-stocks and cattle.

The country made a gallant effort to recover from its heavy losses without calling upon outside assistance. Unfortunately, the disorganization caused by the War; political difficulties, internal and external, which followed the Armistice; the undetermined liability for reparations and the difficulty of reorganizing a political and commercial establishment designed for a country three times as large presented obstacles which could not be overcome. The budget became unbalanced and, as in the case of other governments, recourse was had to the printing press to meet current expenses. The same consequences followed that occurred in other countries under similar circumstances. Inflation produced a continually increasing depreciation in the currency, and the only means of arresting it obviously became a foreign loan to meet the budget deficit during the period necessary for a financial reorganization.



The Stock Exchange in Budapest, Hungary.

Getting Ready for the Loan

THE success of the Austrian reconstruction prompted Hungary to apply to the League of Nations for assistance, and that organization delegated the preparation of a plan to its financial committee. On that committee were such men as M. Janssen, a director of the National Bank of Belgium; M. Parmentier, the French representative on the Dawes Committee; Mr. ter Meulen of Hope & Co., Amsterdam; Sir Otto Niemeyer, Controller of Finance to the British Treasury; Marcus Wallenberg, the well-known Swedish banker; Signor Bianchini, Director of the Association of Italian Banks; Sir Henry Strakosch, Financial Adviser to the South African Government; and others of equal experience. It was fortunate, both for the League and for Hungary, that men of such wide experience in finance and in economics were willing to give their services to the cause of European reconstruction.

Before a foreign loan could be issued with adequate security, it was necessary to remove the obstacles caused by the unlimited liability for reparations, which was a prior lien on all the assets of Hungary, and also to postpone the payment of the relief bonds which had been given by Hungary to eight different countries in return for supplies furnished after the Armistice and which had been granted priority over the lien for reparations. After prolonged negotiations, the Reparations Commission agreed that a reconstruction loan might have the first lien on Hungarian assets, and the countries holding the relief bonds (among which the United States held by far the largest amount) also agreed to postpone the payment of these bonds to the reconstruction loan.

Reparations Liability for 10 Years

THE Reparations Commission also fixed the liability of Hungary for reparations for the next twenty years at an amount not exceeding an average of 10,000,000 gold crowns a year, which, however, is payable only after the service of the reconstruction loan has been met. This removed the paralyzing uncertainty of an undefined obligation and provided some incentive for Hungary to undertake the work of reconstruction.

The limits of this article do not permit an extended analysis of every detail of the plan, which follows the lines of the Austrian plan, with improvements which are the result of the Austrian experience. The chief object of the plan is to balance the Government budget and create a stable currency, thereby establishing a solid financial foundation upon which Hungary can erect a sound economic structure.

The most important features are these:

First. The stoppage of inflation through the creation of a central bank of issue which has the exclusive privilege of issuing bank notes. The government can no longer issue currency, and the bank can issue it only against adequate cover prescribed in the statutes, which cover is gradually to increase as time passes until a point is reached where the gold standard can once more be adopted. Members of the government cannot serve on the Board of Directors and the bank is non-political in character and independent of government control. The statutes limit the character of its loans and have been approved by the eminent bankers on the Committee of the League of Nations as affording a sound

General View of Buda and Pest, the two towns on the Danube forming Hungary's Metropolis.

basis for conservative banking. The capital of the bank (30,000,000 gold crowns) was subscribed almost entirely in Hungary.

Loan Secured by Monopolies

SECOND. The issue of an international loan, secured on some of the most productive revenues of Hungary (the gross receipts from the customs, tobacco monopoly and sugar tax, and the net receipts of the salt monopoly), with provision for the future pledging of other revenues if these should, by any chance, prove insufficient. This loan provides a net amount of 250,000,000 gold crowns available to meet the budget deficits for the next two years. It was issued very successfully in July in eight different countries, including the United States, the largest share being issued in London which took substantially two-thirds of the entire amount.

Third. The appointment of a Commissioner-General who controls the expenditure of the proceeds of the loan and also receives and disburses the revenues pledged to secure the service of the loan, and to whom is given very great power to regulate expenditure and revenue, including the power to require new taxation in case the Hungarian Government falls behind the schedule laid down in the program for balancing its budget.

Fourth. The adoption by the Hungarian Parliament of the reconstruction budget for the next two years covering the period to June 30, 1926, accompanied by the passage of laws conferring full powers on the present government or any succeeding government, to take necessary action in carrying out the plan without the necessity of securing further legislation.

Fifth. The adoption of a centralized system of treasury receipts and disbursements. All government revenues are paid into the Hungarian National Bank daily, to the credit of the government, and all disbursements are made by the government from its account in the National Bank. Daily statements of receipts and withdrawals are furnished by the National Bank to the Ministry of Finance and to the Commissioner-General, and it is thus possible to ascertain the cash position of the Treasury.

Inflation Stopped

ON the arrival of the Commissioner-General in Budapest on May 1, the plan became operative. The experience of a few months is hardly a sufficient basis for reliable predictions as to the future, but certain interesting results have already followed the commencement of reconstruction. First and most important was the stabilization of the currency due to the successful issue of the foreign loan, and the stoppage of inflation by rendering it impossible for the state to print more uncovered paper money to meet its liabilities. Fortunately, the natural temptation to stabilize the currency artificially at a level materially above the existing rate was resisted, and the crown was stabilized at substantially the rate current shortly after the opening of the National Bank, since which time its value has remained constant.

Of almost equal importance was the abolition of restrictions on the export of foreign exchange. In an attempt to protect the crown, it had been made illegal for individuals to retain foreign exchange in their possession or to take it out of the country, and all holders of exchange were required to sell it to the state at a figure which was frequently below its real value. This requirement has been abolished, and now no one is compelled to sell foreign exchange to the state unless he wishes to do so, but he may deal with it in any way he likes and take it from the country if he wishes.

Underground Dealings

THIS measure has proved even more successful than was hoped, and the offers of foreign exchange to the new bank, although no longer compulsory, have increased greatly, and the illegal underground dealings in exchange have largely diminished. An interesting illustration of this is seen in the increase of foreign exchange in the assets of the bank. Shortly before the opening of the National Bank on June 24, the stock of foreign exchange in the possession of its predecessor ("Devisenzentrale"—an institution under state control) had fallen as low as one million Swiss francs, while now the new bank has an ample supply.

Offers of foreign capital for short-time investments have been made quite freely, and the state revenues, especially those from indirect taxes, are increasing to a point considerably in excess of the conservative estimates of the reconstruction plan. The gross receipts from the revenues pledged to secure the service of the loan, which were originally estimated at 50,000,000 gold crowns per year, have, for the last three months, been at a rate in excess of 120,000,000 gold crowns a year, or almost four times the amount necessary to meet the service of the loan.

All of these results indicate a return of confidence, both within and without Hungary, which is especially gratifying, as the creation of confidence is the first essential and absolutely necessary to the maintenance of stable conditions.

Of course, there are difficulties to be solved, but there is nothing which appears to be impossible of solution.

Interest Rates Start at 24 Per Cent

THE problems which Hungary has to meet are no different from those which many other European states have encountered since the War. Shortage of capital is one of the most important; present high interest rates (24 per cent and upwards) are a severe handicap to commerce and industry and can be lowered only through the importation of foreign capital or by increase of savings, which must come through increasing prosperity. Short-time foreign money has been quite freely offered since the stabilization of the crown,

but the need of long-term loans is as great in Hungary as it is in other countries in Central Europe. It will be more difficult to obtain long-term loans, particularly from the United States, which is not accustomed to private loans of this kind and has neither the experience nor the connections to negotiate or follow up loans of this character in European countries; but they are badly needed by agriculture and industry.

The interferences with the ordinary flow of commerce which followed the war are another source of difficulty. Hungary created artificial obstacles to trade, partly in an attempt to protect its currency; partly in retaliation for restrictive measures adopted by other European countries; and partly as a substitute for an old and rather low tariff, a legacy from the Austro-Hungarian monarchy. Many other European countries have taken similar action, and the result is a network of artificial barriers and vexatious restrictions, which take the form in some cases of absolute prohibitions on imports and exports; in other cases of obtaining import and export licenses (usually for limited quantities); and in most cases high tariffs. One of the most important things to be done is to abolish some and modify others of these obstacles. Hungary has already made a beginning by abolishing the system of "prohibitions, restrictions and licenses," and, generally speaking, goods can now be exported and imported without licenses, though imports are subject to the duties created by a new and rather high tariff. It is hoped that other countries will follow this example, and the way will then be clear for the negotiation of reciprocal commercial treaties. These are of considerable importance, since Hungary, while primarily an agricultural country, has a very considerable industrial development, much of which has been long established and which has been terribly handicapped by the dismemberment of the country.

Flour Mills Cut Off

THE flour mills of Hungary, for example, were known all over Europe and their output was exceeded only by that of the Minneapolis mills. They have been cut off from their sources of supply, on the one hand, and from their markets on the other. Other industrial establishments, which were built when free trade existed within the boundaries of the Austro-Hungarian monarchy comprising 50,000,000 people, have now a free market among only 8,000,000 people. Other countries are suffering from the same difficulties, and it is to be hoped that reciprocal commercial treaties, negotiations for which are in progress, can be brought to a conclusion which will permit trade and commerce to follow its normal channels more freely.

The state undertakings and state employees are a heavy burden on the budgets of most European states, and in Hungary the situation is more acute than in most countries because, after the war, most of the state employees in the two-thirds of Hungary lost by the Peace Treaty returned to Hungary, their places having been filled by nationals of the new countries. These employees had moral, and possibly legal, claims on the state, with the result that the number of active state employees and pensioners is very large for a country the size of Hungary. The state enterprises, such as the railways, suffered great losses from the depreciation of the currency, but it is hoped that, now that the currency has become stable, the loss from the state enterprises can be reduced to a low amount, if not entirely eliminated.

Of course, there are other problems, but I mention these only to give some illustration of the character of questions arising in European reconstruction.

One of the most striking features of this plan is that it is a product of international cooperation secured by and through the League of Nations, which, I am quite sure, could not have been achieved in any other way. One feature of the plan was the execution of a political protocol between Hungary and its neighbors (as well as Great Britain, France and Italy), in which all agreed to work for the plan and to respect each other's territorial and political independence. This was executed at Geneva, where it was possible for negotiations to be conducted during meetings of the League without loss of prestige or the difficulties which are encountered through attempting to carry on delicate negotiations by means of written diplomatic notes. One of the most important elements of the plan is that it is non-political in character, prepared by able men who acted impartially and who were guided solely by financial and economic principles. Politics do not enter into the plan, and it could not have been prepared except through some impartial agency such as the Financial Committee of the League of Nations.

The position of a foreigner charged with the duties of Commissioner-General must always be a delicate one in any country, and I should not have been at all surprised to find some feeling, not of ill-will but of resentment at my presence in Hungary. I have met with nothing of the sort, and take pleasure in saying that I have received the most complete and cordial cooperation from the Hungarian government and from all with whom I have come in contact.

As I have said, it is difficult to predict the future when the plan has been in operation only a few months; but the country is fundamentally sound, and with the support of the government and the people, which, I am sure, will be as freely given in the future as it has been up till now, I can see no reason why the plan cannot be successfully carried out and the financial and economic affairs of Hungary put on a permanently sound basis.

Gold Quotations

(*Continued from page* 368)

marks per each 100 gold marks nominal in a share. Cost of one share, 1750 gold marks.

End of Paper Mark Period. Capital 10,000,000 paper marks, consisting of 10,000 shares of 1000 paper marks each. Bourse quotation of 31st October, 1924, 7,500,000,000,000 paper marks (in Bourse list "7.5") per each 100 paper marks nominal in a share. Cost of one paper mark share 75,000,000,000,000 paper marks.

New Reichsmark (Gold Mark) Period. Capital scaled down to 2,000,000 gold marks, consisting of 10,000 shares scaled down to 200 gold marks nominal each. Bourse quotation 1st November, 1924, "37.50," meaning 37 gold marks 50 pfennigs per 100 gold marks nominal in each share. Cost of one share, 75 gold marks.

According to this process, the Bourse gold mark valuation of shares which have gone through the gold balance and scaling down process, but which have not yet secured a Bourse gold mark quotation, can always be calculated from the current paper mark quotation. The above Bourse quotation of "37.50" is ascertained by taking the scaling down ratio, which is 5 to 1, and multiplying by the 5 the 7,500,000,000,000 paper marks on the last day of paper mark quotation. The 7½ trillion paper marks equal 7 gold marks 50 pfennigs, so that the resulting gold mark quotation is "37.50," which is the price per 100 nominal. The new 200 gold mark share, therefore, costs 75 gold marks.

The Gold-Mark Concern

AS a concrete example may be given the last paper mark and first gold mark quotations of the one corporation which is so far quoted in gold marks. This is the *Gesellschaft für Elektrische Unternehmungen:*

Before the war the capital of this corporation was 60,000,000 gold marks. During the bad-currency period the capital was increased, and it ultimately reached 300,000,000 paper marks, a moderate increase compared with that of many corporations. The corporation in preparing its gold mark balance sheet found that the surplus of its net assets over its liabilities was 30,000,000 gold marks, and it scaled down its capital to that sum, at the ratio, that is, of 10 to 1. On the 28th October, the last day of paper mark quotation, this security quoted 12,900,000,000,000 paper marks (equal to 12 gold marks 90 pfennigs) per 100 marks nominal. On the 29th October, the first day of gold mark quotation, the security quoted "126," or 126 gold marks, per 100 gold marks nominal of the new gold mark shares. It quoted, that is, exactly ten times as much, corresponding to the tenfold scaling down, less a fraction (126 instead of 129), due to the fact that on the 29th this security, like most others, had a small drop in a weak market.

The above should enable American investors, bankers and brokers to understand the complete new Bourse gold quotation list, which will be ready within a few months, and in the meantime to understand the apparent vagaries of individual securities which will suddenly jump in quotation five, ten, twenty or even more times. The new system will be less convenient than the old, because there will be much greater disparities than before between the nominal values of shares of different corporations, owing to the enormous differences in the degree of scaling down.

The Modern Missouri Pacific

BY CHARLES F. SPEARE

Central Unit in a Group of Ten Railroads the Inter-State Commerce Commission Has Tentatively Listed for Consolidation. Three Lines With Total Mileage of 10,500 Make Perfect Highway from St. Louis to Gulf at Galveston and New Orleans.

WHEN he created his transcontinental railway system with the Missouri Pacific as the bridge between the eastern and western parts, the late George J. Gould built upon sand. He erected a great rambling and ill-related superstructure, but he did not dig down to bedrock for his foundation. Result: The system fell apart and disintegrated physically and financially.

The nine members of the so-called Gould System of 15 years ago went into receivership. At one time the courts controlled the entire nine whose traffic area extended from the Atlantic to the Pacific and from the Great Lakes to the Gulf of Mexico. One by one they have returned to solvency, but not to the old partnership. The eastern four have made new attachments or are going it alone; the five southwestern and Rocky Mountain-Pacific Coast lines still have much in common. Three of the nine have recently come together in what may be described as the Modern Missouri Pacific.

The last of the proposed systems in the tentative plan of consolidation of railroads prepared by the Interstate Commerce Commission is No. 19, or the "Chicago-Missouri Pacific" group. It is composed of 10 roads, of which the Missouri Pacific, with about 7400 miles of main track, is the central unit. Attached to it are the Texas & Pacific, with 1850 miles, and the International & Great Northern, with 1160 miles, descendants of the original Gould System in the Southwest but now robust and income producing rather than anaemic and profitless as in the old days. The three lines, with a mileage of about 10,500, make a perfect highway from St. Louis to the Gulf at Galveston and New Orleans and to the Mexican border, with a stem reaching out to the western end of Texas to join the Southern Pacific. They had been operated separately in the past, but in a common interest, and were alike infected by the Gould influence. They supplement one another quite naturally. We have them today brought into a theoretical combination by the Interstate Commerce Commission, but, more important still, into an actual consolidation, for the Missouri Pacific controls the stock of both the Texas & Pacific and International & Great Northern.

These, however, are not all of the members of the new Missouri Pacific family. A near neighbor, the New Orleans, Texas & Mexico, controlling some 1260 miles, a former link in the St. Louis San Francisco chain, but divorced and subsequently becoming affluent without alimony, was taken into the Missouri Pacific household on quite substantial terms. This alliance gives the "MOP" a second line to the Mississippi River crossing, entrance to the second largest city in Texas, and to the richest land in that State, which lies along the Rio Grande River in what is known as the Brownsville section. It also provides an avenue into Mexico, but one that has not yet demanded the services of a traffic regulator. So we have at the present time a completed system of between 11,500 and 11,750 miles, or larger than the Chicago, Milwaukee & St. Paul, and about the same size as the Atchison and Southern Pacific roads. To this the consolidation plan would add the Kansas City Southern, the Chicago & Eastern Illinois, a portion of the Kansas City, Mexico and Orient, and three lines of small mileage, viz., the Kansas, Oklahoma & Gulf, the Fort Smith & Western and the Louisiana & Arkansas.

Its Natural Territory

THE "Orient" has fallen to about as low an estate as it is possible for a corporation to go, and no road wants it. It does not seem a logical part of the Missouri Pacific, which will run more smoothly it confined to its natural territory in the valley of the Mississippi and in the eastern half of Texas. It would, in fact, be much better if the long arm of the Missouri Pacific which reaches from Kansas City to Pueblo could be dismembered and grafted to some other system. (It has been suggested that it be given to the Burlington to balance it with the Kansas City-Denver line of the Union Pacific). We will, therefore, take the liberty of rejecting the line which Stilwell projected from Kansas City to Topolobampo in Mexico and consider whether that earlier and more rugged child of his—the Kansas City Southern—should be given a position in the Missouri Pacific group.

It does not seem to me that the Kansas City Southern properly belongs in this group. The argument in favor of placing it there is cast on financial lines rather than based on the road's value as a contributor of traffic. It lies west of the natural sphere of influence of the Missouri Pacific, and while it would give a direct line to the Gulf from Kansas City, the great currents of freight are eastward and due south from St. Louis, which is the Missouri Pacific's gateway and not Kansas City. Simply to balance the branch line mileage of the Missouri Pacific by the main line mileage of the Kansas City Southern and the high net operating income per mile of the one with the moderate net income of the other, does not offer sufficient excuse for joining together in a permanent bond two so incompatible railroads as these two.

Just how essential the Chicago & Eastern Illinois is to the proposed Chicago-Missouri Pacific system or to the Modern Missouri Pacific is a question. The weakness of many of the contemplated mergers is that they cover too wide an expanse of territory, making their operation difficult. The Southwest and Southeast that have been occupied for two generations by the old Gould roads are sufficient unto themselves from the standpoint of traffic origination and traffic distribution. As they have been remodeled in their capital structures as in their physical character the Missouri Pacific, Texas & Pacific, International & Great Northern and New Orleans, Texas & Mexico are capable of serving their patrons to better advantage than ever before and producing for their stockholders larger profits than have heretofore been realized. I have been going into the Southwest on railroad inspection trips for many years and have seen these roads in all of their stages of decay and rejuvenation. Never have they realized in efficiency of management or physical strength the qualities of the present. So it is doubtful if they will greatly benefit from the fact of a Chicago entrance as proposed in the Chicago & Eastern Illinois. This was the line which once joined the Frisco system and the Lakes. In their arrangement of roads the Interstate Commerce Commission has set aside the Chicago & Alton for the Frisco-Missouri-Kansas-Texas-St. Louis Southwestern group in order to give it better Kansas City-St. Louis facilities, as well as a Chicago entrance. If one combination is to be allowed to control a line from St. Louis to Chicago, its keenest competitor in the Southwest should have the same benefits conferred on it, and on this score the disposition of the C. & E. I. may be logical. The coal fields of the latter in Illinois would be made tributary to the Southwest in providing commercial fuel and helpful to the Missouri Pacific lines in providing them with their own fuel supplies.

It will be seen that no provision is made for continuing the union of the Missouri Pacific with the Denver & Rio Grande Western and the Western Pacific. This relationship, however, is to be maintained through the investment which the Missouri Pacific is to have in the former as reorganized. The portion of the original Gould transcontinental line completely severed from the Missouri Pacific is the Wabash, whose destiny in the present unification of lines is not at all clear since the Nickel Plate interests bought the Erie Railroad in the open market and made it a part of their system instead of allowing it to be, as intended, the main unit of Group 4, of which the Wabash lines east of the Mississippi were a constituent part.

The Keynote of Europe's Revival

By WALTER T. LAYTON, C. B. E.

Editor, The Economist of London

It is the Stopping of Monetary Depreciation. An Unsound and Rapidly Depreciating Currency Undermines the Economic Life. Europe Needs Currency Stability. Unless it is Attained Civilization is Threatened With Economic and Political Disintegration.

IF there are any Europeans who still doubt the will of America to assist in the process of European reconstruction, they should have had their doubts set at rest by a remarkable event which occurred a few weeks ago. I refer to the floating of the German loan. I had the advantage of seeing this event in San Francisco, and it was a striking thing to have evidence as I had in a San Francisco broker's office that the loan was being subscribed, not under pressure from bankers or financial advisers, or being taken up by finance houses, but freely and voluntarily by the individual investor. The success of the loan proves that America has the resources needed and is willing to use them in the work of European reconstruction, if she is shown by her responsible leaders how she can help and has confidence in the schemes put forward. This confidence is likely to be strengthened in proportion as American opinion understands the problems of Europe and the European nations appreciate the economic as well as the political situation in this country. The following remarks summarize very shortly a British point of view of the problem:

Stability of Exchanges the Essential

MUCH the most important need of Europe is *currency stability*. An unsound and rapidly depreciating currency undermines the economic life of the country concerned. The figures reached by the German Exchange last year have sometimes been described as "astronomical." This is not a mere figure of speech, but is literally appropriate. For example, the English shilling used to be worth one mark. The English shilling is worth today one million million marks, that is to say, a number which, if placed end to end, would reach to the sun and part of the way back again. During the five months, June-October, 1923, the depreciation was so rapid that the whole currency had to be replaced over and over again, since the largest notes issued in, say, the beginning of August were the smallest of small change a fortnight later. Those who visited Germany during this period can give numerous examples of the chaotic condition of prices, the constant change in prices which meant one did not know from one hour to the next what the money in one's pocket would buy, and the impossibility of carrying on business. Those who think that Germany will be quickly restored and become a serious competitor in the world markets have not realized how seriously the economic life of Germany has been crushed by the events of the last two years.

The Workers' Morale

THERE is, however, one other aspect of this depreciation which is often overlooked and that is the breaking of the morale of the nation. When the worker bargains to sell his labor for a given sum and finds when he gets his wage that it purchases much less than he expected, he begins to question the equity of the whole system. His sense of the rights of property becomes weakened. He sees that it is more easy to prosper by gambling than by working, and it is not difficult to understand why it was that in Austria and Russia and Germany and in other countries where serious depreciation has occurred the ordinary standards of human intercourse have been seriously undermined, and there has been an epidemic of theft.

The Bolshevik leaders were right when in 1918 they declared that the capitalist system of society could be smashed by the deterioration of currency. They have been proved correct up to the hilt, but they have not shown that it is possible to substitute any alternative method of economic intercourse. Europe needs stability and unless we attain it civilization is threatened with economic and political disintegration.

Sir Montagu Norman, named head of the Bank of England for the sixth year.

But depreciation affects not merely the countries immediately concerned. It destroys the conditions for normal international trade. In this connection I recall the extraordinary effect upon Great Britain of the slump in the mark which occurred in the fall of 1921 as an immediate result of the payment by Germany of one milliard gold marks in cash. The German Exchange fell from between 200 and 300 marks to the pound to 1200 marks to the pound in a short period, and the effect of this rapid decline was that for the moment German sellers were able to quote prices for articles of commerce, such as pig iron, which were ludicrous compared to world prices at the time. Pig iron was selling at about 130 to 140 shillings per ton. By October the German price for delivery from German works was 30 shillings a ton. When these prices were offered in the English market, the immediate effect was to cause a doubt in the minds of the business world as to what the future level of prices was to be, with the result that everyone stopped making contracts and decided to wait and see. As a matter of fact, very little German pig iron, or indeed of any other German goods, came either to Great Britain or into markets at that time, far less indeed than before the war. But trade was paralyzed owing to the uncertainty of the price level. Business dwindled and production was lost which can never be replaced. The war has checked the volume of the world's trade in a variety of ways. No influence in the last three years has been more potent in this direction than the instability of the value of money.

We cannot yet be sure that we are clear of the wood. If anyone is disposed to think that I am speaking of conditions that are passed, I would remind him that in 1923 the exchanges reached record low levels, not only in Germany and Russia, but in Poland, France, Belgium, Spain, Portugal, Greece, Hungary, Roumania, Jugo-Slavia, Bulgaria, The Argentine, Brazil and Uruguay. In 1924 even these low levels have been exceeded in two important cases—those of France and Belgium. It is, however, significant that in the 1923 list there is an important omission, namely Austria, whose currency was stabilized by the League of Nations Plan in the fall of 1922. Though 1923 was easily the worst year on record, this scheme of the League of Nations had already provided the first gleam of hope that the financial situation of Europe was not beyond repair.

These considerations explain why Great Britain is overwhelmingly in support of

the Dawes plan—a scheme which affords substantial hope that the era of depreciating exchanges is coming to an end. If the Dawes plan succeeds in doing this, there is every reason to believe that it will give a lift to the volume of the world's commerce which is sailing the seas. If the volume of commerce increases, we in Great Britain have no doubt that we shall retain our proportion of it. The trouble with Great Britain in the last few years has been directly due to this deficiency of world trade. Our proportion of the world's foreign commerce remains as big or even bigger than before the war. Our proportion of the world's shipping (not ships) is larger than before the war and has been steadily increasing since 1920. Our trouble has been that the total shipping of the world and the total volume of goods at sea has been too small. The significance of this fact will be appreciated when it is remembered that one-half of our unemployed are to be found in the metallurgic group of trades, which includes coal, iron, steel, engineering, shipbuilding and shipping. It is in the hope that stability will lift the volume of trade, that the whole of the commercial and financial community in Great Britain, and a substantial majority of the industrial community, support the plan of the experts.

I do not intend to imply that the Dawes plan will necessarily yield the sums indicated in the report, but this is not essential to the success of the scheme, for, as everyone here realizes, the central point of the plan is that only such payments shall be sent out of Germany as can be made without prejudicing the exchange. Even if the payments are disappointingly small, this feature of the plan is not likely to be abandoned. In the second place, the plan lifts the question for the time being out of politics, and I personally am convinced that the cooperation of the United States in the scheme is a guaranty that it will not again become a disturbing element in the political situation, at all events for many years to come.

Stability and the Gold Standard

THE stopping of monetary depreciation is by general consent the keynote of Europe's revival, and the recognition of this fact has given great importance to discussions which have arisen as to whether stability can best be achieved by returning to the gold standard or by endeavoring to devise some alternative artificial standard. The latter plan has had very able advocates both in Great Britain and America, and among them I need only refer to the names of Professor Fisher and Mr. J. M. Keynes. They have argued with much force that the gold standard did not give true stability to the price level before the war and will not do so in the future. The balance of opinion in Great Britain has overwhelmingly rejected these arguments, the reason for rejection being as follows:

Price Objectives

1. The upward and downward movements before the war were like a smooth lake compared with the violent storms we have experienced under artificial control. Nor is it certain that the pre-war movements which took place were altogether bad.

Periods of slowly rising prices are periods of expansion. Periods of steady fall are times when economies are introduced and waste and extravagance eliminated. The ups and downs represent what Mr. Beveridge calls the pulse of a nation. If we eliminated them altogether, we might find that absolute stability means stagnation. We are not even certain of our objective in the long run; in this connection I would remind those interested in this question of a suggestion once made by the late Professor Marshall who said that an ideal standard of values would lead to a steady fall in the general level of prices, such that those with fixed incomes would enjoy a reasonable share of man's increasing control over nature.

Criteria

2. Those who would wish us to have an artificial control of the price level are not yet able to tell us what index number to follow, nor what is the right price level at which to stabilize. The plan requires that when business is expanding restrictions should be interposed at some moment before the movement gathers too much momentum. But when is that moment? In Great Britain, for example, should we let business expand until unemployment is down to 5 per cent or 4 per cent or 2 per cent? No one has answered these questions.

Controllers

3. A still more difficult problem is who is to be entrusted with this power of regulation. We have the greatest confidence in Court of the Bank of England. But even in England today there are those in industrial circles who question whether the Bank of England is not unduly influenced by the financial interests of the City of London rather than by the industrial requirements of Lancashire and Yorkshire.

The Lesson of History

In theory the arguments for an artificial standard may be sound, but history is a great teacher, and the experience of the last five years in Europe has led England to desire to get back to the gold standard in spite of the objections raised by its critics. This view is summed up by Professor Pigou, who observes that "so far as the United Kingdom is concerned until the gold standard is restored, more elaborate improvements in our monetary systems are not practical politics." Let me add here that the position of Great Britain is the key to the situation. Germany is nominally to be put upon the gold standard by the Dawes plan, but there will in any case be enormous difficulties in keeping her there. Her position will be artificial for some time to come, and it may be doubted whether this part of the scheme will be assured of success unless, and until, Great Britain is also on a gold basis. Great Britain will bring with her a considerable group of European ex-neutral countries and the countries of the British Empire.

Problem of Restoring Gold Standard

HOW is this end to be attained? Our ability to get back to gold depends upon what happens in America. If your prices here were to fall considerably and gold become more valuable, we could not get back to gold without an even greater fall of prices in England, which could only be attained at the cost of a most serious industrial crisis. If your prices remain steady, or even advance slightly, as they are showings signs of doing at the present, we can get back to gold parity with a comparatively small change, if any, in English prices. In Great Britain it is believed that conditions are more favorable than at any time since the Armistice, and even if it involves us in some difficulty, Great Britain is, I believe, prepared to make a great effort this winter to restore the gold standard. The conditions in America that we looked for to help us to get back and stay there when we have achieved parity are:

1. That nothing should be done to depress the American price level. In this connection Professor Cassel recently caused some uneasiness in London by his statement that he found still persisting in America the idea that in the long run pre-war prices were "normal." If this were true and it converted itself into action designed steadily to bring down American prices, it would mean that we should not merely have to face the task in Great Britain of bringing our prices down by the 5 per cent or 6 per cent needed to establish parity, but would have to face a long period of deflation, pursuing the downward path of the American price level. In the difficult industrial situation in which Great Britain is placed, we could not contemplate such a possibility. Even though and when other countries get back on to the gold standard, I am satisfied that the normal post-war level is radically different from the pre-war level of prices, and that the present situation in America, which seems to point to some increase in the present price level, does not indicate a period of inflation in the sense of bringing about a price level which is not likely to be maintained. At the present moment price movements are in progress which will help the restoration of the gold standard. While the upward movement should be checked promptly the moment there is any indication of an unsound business position, it would be unfortunate if it were checked merely on the theoretical ground that the price level ought to be held at some arbitrary figure, such as 50 per cent of the pre-war level or that it ought to be slowly reduced toward the pre-war level.

2. That American capital should flow to Europe, both for short and for long period investments. This will happen if American money rates continue low as at present in comparison with European rates. The latter are certain to be high this winter, for Germany is suffering from a famine of capital, and whatever restraints the Bank of England may impose upon the money market a considerable amount of British money will be invested in Germany this winter. The crux of the question is whether American rates will remain relatively low. On that I find some difference of opinion. It depends upon whether America's monetary resources are ample enough to take care of the steady expansion of trade, which is evidently in progress, as well as a boom upon the stock exchange, without causing a serious shortage of money.

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Credits for the Cooperatives

By MERTON L. COREY
Member Federal Farm Loan Board

There Need Be No Competition Between Commercial Banks and the Intermediate Credit Banks for the Business of The Cooperatives. Essential Steps in Making a Loan to One of These Associations. Bankers' Opportunities for Guiding Them.

THE machinery is at hand which skillfully, sympathetically and helpfully employed will re-establish the American farmer upon a higher and surer level of economic independence. It is a task which requires the cooperation of capital. The banker and farmer can restore agriculture even as by joint effort they established it.

The Agricultural Credits Act of 1923 provides for the establishment of twelve Federal Intermediate Credit Banks, intended not to supplant but to supplement the established banking institutions. They constitute, as it were, a farmers' Federal Reserve System, designed to extend credits for longer periods than banks of deposit can prudently grant.

The two general classes of financial service to agriculture provided by the Act are:

"The Federal Intermediate Credit Banks shall have power to discount for, or purchase from, any national bank, and/or any state bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, cooperative bank, cooperative credit or marketing association of agricultural producers, organized under the laws of any state, and/or any other Federal Intermediate Credit Bank, with its indorsement, any note, draft, bill of exchange, debenture or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose or for the raising, breeding, fattening or marketing of livestock; and

"To make loans or advances direct to any cooperative association organized under the laws of any state and composed of persons engaged in producing, or producing and marketing, staple agricultural products, or livestock, if the notes or other such obligations representing such loans are secured by warehouse receipts, and/or shipping documents covering such products, and/or mortgages on livestock: Provided, That no such loan or advance shall exceed 75 per cent of the market value of the products covered by said warehouse receipts and/or shipping documents, or of the livestock covered by said mortgages."

Credits to Cooperatives

ADEQUATE credits are absolutely essential to the continued existence of the established cooperative marketing associations and to the organization and development of the new associations which the future promises. Commercial banks will not and ought not to promise credits in excess of Federal Reserve limitations. The longer maturities must be financed through the sale of debentures timed with these loans. The Intermediate Credit Banks have established a market for these debentures, and a properly organized cooperative marketing association is, therefore, assured of adequate credits for an all-the-year-round marketing program. Every cooperative marketing association needs a line of credit both from the commercial banks and the Intermediate Credit Banks. The loan upon the member's crop delivery enables the association to make a reasonable advance to the member, and to hold the commodity and market from month-to-month as it may be absorbed at a fair price. It prevents dumping, and provides a businesslike merchandising of farm products which is quite as essential to farmer as to manufacturing or mercantile success. A temporary surplus will not be permitted to fix the sale price of a commodity which will normally be consumed in the course of a year.

These credits should be divided, not upon the basis of competitive rates, but from a careful survey of the business of a particular association, to especially determine how much of its borrowings should be for periods of less than six months and how much for longer periods, all consistent with an orderly marketing program. In 1923 the Intermediate Credit Banks made direct loans to cooperative marketing associations at lower rates than did the commercial banks. There was a tendency on the part of some cooperatives, therefore, to seek an undue share of their credits through this new system.

The Farm Loan Board and the management of the Intermediate Credit Banks insisted that the cooperative marketing associations borrow their short-term requirements from the commercial banks. This year the easy money market reversed conditions and the cooperatives could borrow at a lower rate from the big commercial banks. The commercial banks, with some few exceptions, despite the fact that the loans were desirable, insisted that commitments should be procured from the Intermediate Credit Banks for the maturities of six months or more.

The attitude of the commercial banking interests toward the Intermediate Credit Banks reflects credit upon the dominating influences in our banking system. From a disposition early in 1923 to frown upon the act as an unwarranted invasion of the field of private initiative, they have accepted the new system as a permanent part of the nation's financial structure, have aided in the establishment of a broad and responsive debenture market, and throughout the past year have cooperated splendidly in the financing of some of the most important cooperative groups. The favorable attitude of the bankers in the financial centers has been in part responsible for the present debenture market upon which we have recently sold these debentures at a rate of 3.25. We are gratified with the progress which has thus far been made, but the future demands that both the commercial banks and the Intermediate Credit Banks shall do more if all the farmers are to become established as they ought to be in an orderly marketing program through cooperative marketing associations.

Shall Maturities Be Reduced?

SHALL the maturities be reduced to less than six months? Admittedly, this is a comparatively new field of finance. The hesitancy on the part of some bankers in aiding a cooperative marketing association has led to agitation for an amendment to the act permitting the Intermediate Credit Banks to make loans for periods of less than six months. I am opposed to this. If the loans are sound, the commercial banks ought to make them. If the loans are unsound, we are not justified in making them, for we are handling the funds of the Treasury of the United States, which should be administered with as high a regard for our responsibility to the government as the banker has for his responsibility to his individual depositors. If, however, the banker fails to respond to a proper demand upon him, if he fails to finance a sound cooperative marketing association, there will be real justification for the reduction in maturities so that the Intermediate Credit Banks may serve these farmers. I would count it most unfortunate for the country as a whole if the maturities should be reduced to the point where we shall be in constant competition with the commercial banks throughout the nation. It is then but one step to the setting up in hundreds of agricultural communities of credit agencies in competition with the country banks. The evils which would flow from this are too apparent to need description. Surely agriculture would be best served through the continued utilization of the country banks for natural country bank maturities, and the new agencies for maturities in excess of what the country banks may properly handle.

Two questions are naturally presented for the consideration of the banker in determining whether his bank shall become interested in loans to cooperative marketing associations. First, in general, are the loans sound? Second, what are the essential steps in the making of these loans?

The first question is easily answered. A loan upon a staple agricultural commodity, secured by warehouse receipts of a bonded warehouse, fully insured, under a contract requiring the maintenance of a broad margin of security at all times and with the unequivocal right to enforce remargining or to immediately sell the commodity upon

the open market, represents the last word in prime liquid security. The Federal Farm Loan Board has ruled that warehouse receipts upon the following agricultural products will be accepted as a basis for direct loans and advances to cooperative marketing associations:

Grain, cotton, wool, tobacco, peanuts, broom corn, beans, rice, alfalfa and red-top seeds, hay, nuts, canned fruits and vegetables, maple sirup, and dried fruits.

Obviously, all these commodities are not entitled to the same consideration from credit agencies. For example, wheat and cotton, enjoying as they do, world-wide markets, the commodity always marketable on the instant, has every element of security which the banker could ask for. But this does not mean that it is not possible to make sound loans upon the other commodities. The fact that the market is more restricted and that the loan can not be liquidated upon instant notice argues only for broader margins of security and more careful study of price levels over a course of years, as well as the relation of stocks on hand and this year's production to normal annual consumption. When these elements have been carefully determined, the loan may safely be made upon any of these commodities.

Stands Between the Banker and Loss

IT is to be noted, also, that the Intermediate Credit Bank System really stands between the banker and loss; not that the Intermediate Credit Bank guarantees the banker's loan, but all loans thus far made are approximately 60 per cent of the association's annual credit requirements as against the 40 per cent borrowed from the commercial banks. Ours are the long maturities. The security held by the commercial banker will be sold first and his loan paid first. It is inconceivable that the bankers should suffer loss upon security where the Intermediate Credit Bank holds 60 per cent of the obligation, always secured by the part of the crop which will be marketed last. Surplus production and slow markets might be vexatious for the Intermediate Credit Bank but never for the commercial banker.

The ultimate goal of American agriculture is the cooperative marketing of all the staple agricultural commodities. The foodstuffs listed above are non-perishable within commercial and Intermediate Credit Bank maturities under the required warehousing. The commercial banks have not financed their share. It is not enough that farmers growing the few favored articles shall be aided in an orderly marketing program. It is entirely possible to work out sound and successful cooperative marketing associations and a satisfactory financial program for all the farmers growing this diversity of farm products. The Intermediate and commercial banks can and should do for these groups what has already been done for the cotton growers.

What are the essential steps in the making of a cooperative marketing association loan? Whether the association goes first to the commercial bank or to the Intermediate Credit Bank, arrangements should be made at once that the other agency necessarily involved shall, from the inception of the negotiations, participate in the investigation and ultimate making of the loan.

The First Requirement

THE first requirement is that there shall be a survey of the particular association. What is the commodity? How broad is its market? What is the relation of the present crop, plus the holdover, to normal consumption? What are the contemplated advances to the members upon crop deliveries? What are the average monthly sales? What, considering the price level over a course of years, should be the per cent of loan upon the present market value to secure absolute safety against every possible contingency? Can the commodity be graded accurately? What is the past record of this association? When this survey has been made, it will be possible to approximate a division of credits between the commercial banks and the Intermediate Credit Banks—the one taking the short, the other the long maturities, to enable the association to conduct an all-the-year-round orderly marketing program.

The integrity and efficiency of the official management are important elements. The real security, however, is not the financial strength or standing of the company, as in the ordinary corporation loan, but a readily marketable food product. Indisputable title to and complete control of this commodity are essential.

Assuming that this survey has developed a satisfactory condition, what shall be required before the commitment is made?

Competent counsel should determine that under the laws of the state under which it is organized, it is in fact a standard Cooperative Marketing Association, with all the powers and duties which the term implies; that through the marketing agreement signed by the individual association member, a complete title is passed to the association, with full power to pool the products and to sell or to pledge them as security for loans in the name of the association.

Too much importance can not be placed upon this proposition. In administering the Intermediate Credit Banks, we have found that several so-called cooperative marketing associations are really not such in fact. One, for example, has a marketing agreement which provides that the individual member may fix the price at which the commodity shall be sold and may recall the delivery. Another contracts that the association must hold the individual's crop and account to him for the proceeds of the sale of this particular delivery. It is apparent that a safe loan could not be made upon either of these marketing agreements. The association or its creditor must be in position to sell whenever the margin is depleted without being required to procure the consent of the individual member. Then, again, the creditor must insist that the commodities be pooled according to grade, and that he shall have the power at all times to sell all or any part of a pool to build up the proper margin rather than to sell small parts of perhaps thousands of individual deliveries, which is wholly impractical.

The Application Should Cover

THE application is, necessarily, a comprehensive document embodying the essentials of the contract on the part of the association with the creditor. It contains many important paragraphs; among them, the contract to maintain the prescribed margin of security and the right on the part of the creditor at all times to require additional deliveries for the maintenance of this margin or to sell a part of the deliveries, applying the proceeds upon the indebtedness, thus restoring the contract margin. Accompanying these papers there should be the following:

The certificate of election or designation of the present incumbency of the principal officers, with specimen signatures.

The form of note obligation.

The opinion of the counsel for the applicant, certifying that the applicant is authorized by law to incur the liability involved; that the officers who execute the note or notes of the applicant are duly authorized by legal and corporate action so to do, and are similarly authorized to pledge or hypothecate the collateral security which will be offered; that each note when executed on the form attached to the application will constitute a valid and binding obligation of the applicant according to its terms; that the applicant will obtain marketable title to the commodity delivered to it by its members under the terms of its marketing agreement, with full power to pledge such commodity to the said bank so that it will be security for any and all notes of the applicant to the said bank outstanding under its application.

List of warehouses which will be used by applicant. If the commodity is stored only in warehouses bonded under the United States Warehouse Act, no further investigation will be required, for the regulation and administration of this department entitle these receipts to the highest standing in the commercial world. If, however, the receipts are those of private warehouses, or are issued under State Warehouse Acts, further investigation of the laws and their administration, as well as the warehouse management and financial strength of the company, are essential.

Copy of the general pledge agreement.

Copy of the custodian agreement, with the form of the custodian's receipt.

The practical conduct of the business of a cooperative marketing association requires the utmost facility in the interchange of warehouse receipts. It is, therefore, essential that a highly qualified, reputable bank be selected as custodian, under a contract entered into by the association, the credit bank and the custodian, fully outlining the duties of the custodian, and establishing with certainty the trust relationship. Insolvency or financial difficulties of the custodian bank will not involve the credit bank, which by a proper form of custodian agreement shall keep these securities outside the general assets of the bank.

The resolution of the board of directors authorizing the application.

Complicated as this procedure may seem at first blush, it presents no especially difficult problems. We have used the machinery for two years in the making of $83,145,726.34 of cooperative loans, of which $42,006,507.99 has been repaid, leaving outstanding $41,139,218.35. It has worked smoothly and satisfactorily, and the loans have been made upon such a safe and sound basis that there is not even a possibility that the Intermediate Credit Banks will sustain a dollar of loss.

Supervision After Completion of Loan

THE banker need not be told that he must exercise continuing care after the loan is made. His ordinary banker's sense and experience will make him watch the market daily, be sure of the continued maintenance of the margins, keep a careful check upon complete coverage insurance,

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The "Outsider" a Big Factor in the Stock Market Boom

By REUBEN A. LEWIS, JR.

The Surprising Peculiarity of the Post-Election Flurry on the Market Is That the Pressure Which Produces the Activity Appears to Come from the Country at Large and Not from the Daring of Spectacular Operators. Features of Other Intense Periods.

THE moving spectacle of Boom Time in Wall Street opened with a new star in the leading rôle. Shortly after the curtain lifted on that amazing stage—the New York Stock Exchange—it was revealed that the "outsider," in the popular notion long a member of the huge supporting cast, had taken the lead from the "insider." The revelation came as a jolt to the country, which had for many years entertained the widespread idea that the whole show in that stirring theater, where romances and tragedies in finance had long been depicted, would be run with the old figure in the stellar part.

This—perhaps a bit fancifully—tells the story of what has happened in the financial market since the Presidential election resulted in the impressive repudiation of the radical movement and the return of the present administration to power for at least two years. The stock exchange has vividly reflected the confidence of the country in the business outlook; the stuttering ticker, with its advancing prices, has expressed in terms of dollars this far-flung feeling.

The out-turn of the election unquestionably was the spark that set off the present boom. For months before the electorate went to the polls, the stock market reflected the disquieting fears of business men and investors growing out of LaFollette's stand for slicing off billions from the tentative valuation of the railroads, the curbing of the powers of the Supreme Court and other measures that menaced the perpetuity of American institutions. The disposition of the big industries to hold up new developments, the timidity of investors to take shares in big enterprises and the whole national tendency to "wait until after the election" threw business into low gear.

In the meanwhile money piled up in the bank, and vast reserves were accumulated throughout the country. Individuals had increased their savings accounts and had permitted their bank balances to grow. The corporations, refraining from enlarging their operations so long as uncertainty as to the future existed, let their surplus funds grow larger and larger in their strong boxes. The idle funds of banks attained larger proportions as the building movement waned, the demand for capital from the railroads slackened and a slowing down of business resulted in shrinking loans. As more dollars got out of work, the hire grew less.

Just how much this accumulation of reserves should be attributed to the bugaboo of the Presidential year is a matter of conjecture. Nevertheless, bank deposits increased $1,396,000,000 during the first six months of 1924. Savings deposits, at the end of June, were $1,305,000,000 larger than for the previous year. After June the steady inpouring of dollars to the savings banks kept up. Nine hundred banks, distributed throughout the United States, reported to the Federal Reserve Board that their savings were $7,380,874,000 on Aug. 1, $7,398,615,000 on Sept. 1 and $7,457,473,000 on Oct. 1—a bare month from the day of election. Increasing bond prices and dropping interest rates proclaimed the surplus of capital that had been accumulated. Estimates of this so-called surplus, in November, ran as high as $700,000,000.

With business hesitant and capital reluctant, the owners of idle money were willing to lend their funds for a meager return—provided the return was sure and they did not have to run any chances. The individual contented himself with 3 per cent interest on savings; the corporations put their idle money out on short time loans; the banks turned to the 1¾ and 2 per cent return that the big correspondent banks would pay on balances, while the big institutions placed their surplus funds at the disposal of the call money market and invested in short term securities. The whole operation was based on the belief that a small but sure return was better than a larger but uncertain return.

Putting Money to Work

SO, when Mr. Coolidge swept into office on the crest of a great wave of conservatism, the owners of this vast amount of money, working at a low hire, sought to put it on a job that would pay better. They turned to the stock market to buy shares in the great industries, public utilities and manufacturing enterprises. For these held out promise of a far higher yield than could be obtained from the old sources; especially were the railroad stocks and bonds attractive, for the radical thrust had been directed pointedly at the carriers. There were other stocks and bonds in the market that competent men appraised as having been held too low.

Wall Street had been the doldrums of trade. During the summer and the early fall there was hardly a day during the week that the volume of sales hurdled over the million mark. And in the trading the seasoned observers noted the crafty hands of the insiders as they maneuvered to profit from the upturns and breaks in the stocks. Up until the eve of the election it was a "professional's" market, although prices had been on the upgrade for the previous two weeks. The insiders played the leading rôles.

Heard from the Country

WALL STREET had confidently expected the re-election of Mr. Coolidge, but when the members grouped around the thirty trading posts on the floor of the vast exchange, amid the bedlam of noise and seeming confusion, just before the opening gong sounded on 10 o'clock on Nov. 5, there was a dramatic situation. Throughout the country this excitement was transferred to the hundreds of provincial Wall Streets, as the watchers clustered about the tickers to see what the market had to say about the elections. Had the news been discounted by the rising market of the two weeks previous? Would the traders cash their bets on the election through realizing sales, or would they hold on?

The first few sales flashed on the ticker were insignificant. The prices were at just about the closing figure for the preceding Monday. Then came a noticeable pause. A lull and then a sudden burst of speed—the country had been heard from. The phones in the telephone booths, fringing the exchange floor, buzzed in concert. The offices of the members were directing them to buy at the market. The orders hastily inscribed on the red ticket were placed in a carrier and shot through a pneumatic tube to the trading post where the stock is listed for trading. When each of the 900 stocks was admitted to the board, it was assigned to one of these posts that stud the floor.

With the burst of speed there were other signs of activity. Around Post No. 2—where "X," the symbol for United States Steel common, is dealt in, one might witness a group of excited traders, bunched around the specialists who deal in Steel, buying and selling shares in America's first billion dollar enterprise. At the posts where "PA," "UP" and other railroad stocks were listed, the nervous, agitated traders trafficked in the stocks of the carriers. To the layman the scene was one of striking disorder. It was almost unthinkable that such a precise thing as a transaction in stocks could be executed under such circumstances. An occasional whoop from a "bull" or an audible

Where the Stocks are Sold—A view of the Exchange from the galleries. The key to the operations explains the physical machinery: A. Telephone Booths—Containing private telephones connecting with Stock Exchange members' offices. B. Trading Posts—As stocks are admitted to the board they are assigned to one of these "posts." C. Ticker Transmitters—As transactions are made, reporters on the floor report the sales to the ticker operators. These operators at once send them over the ticker system. D. Annunciator Call Boards—White numbers, operated from the telephone booths, appear on the board. When a broker is wanted, his telephone clerk signals him by pressing a switch in his booth which drops his broker's signal number. F. Pneumatic Tubes—Connecting telephone booths with the trading posts. By means of these tubes messages can be sent instantly by the telephone clerks to any post on the floor.

groan from a "bear" punctuated the babel rising from the floor. In and out of the clusters of traders uniformed men with distinctive headgear darted with their pens and pencils, making hasty notes of the transactions. These were some of the ninety reporters employed by the exchange to keep track of the prices of the open market transactions. If one could follow the movements of the reporters, he might trace them to one of the four telegraph dispatch stations, where, surrounded by a metal rail, the telegraphers would hammer a few keys on what looked like a large typewriter keyboard and thus transmit the latest quotations to the thin white tape that streamed out of the glass ticker cases.

"Movies" in the Stock Exchange

THE news, spelled out by the staccato clicks of the tickers, soon met the eye. At the three ends of the exchange floor are motion picture screens—the ticker tape is greatly enlarged and moves over the screen so that the traders can see, keep up with the current rises and breaks and remain on the floor. The "movies" are the latest innovation on the stock exchange.

The swift pace that started after the first few minutes kept up until mid-afternoon, and it was more than the tickers—the last word in quotation transmission—could do to keep up with the tremendous volume of trading. At the end of the first boom day the transactions totaled 1,823,000 shares—the largest number recorded since the memorable day of last Feb. 15 when the "bull" market crashed with the news of the oil disclosures in Washington and the traders rushed to unload their stocks.

On the second day the daily papers rec'ted that the market was sobering up from the first blush of enthusiasm as the turnover of stocks dropped to 1,643,014. "Wall Street," one great daily said, "is more disposed to examine industrial reports closely for confirmation of expectations that business will show substantial recovery." And then the country—the little Wall Streets in all the sections—were heard from again. On Friday there were sales of 2,336,160 shares, and another record for the year fell. During the two hour session on Saturday, the fast pace continued with sales of 1,388,105 shares. Then came four two-million share days, a slight recession and then the market caught its second breath, sales of 2,857,180 shares being recorded on the twelfth day after the election.

In the tremendous upswing of prices, representative stocks advanced almost perpendicularly. A fortnight after the election an average gain of 6½ points had been established, with an appreciation of more than four billion dollars in the value of the securities. The amazing part of it all is that there was none of the feverish excitement that had marked other great "bull" markets. The popular explanation was that the outsiders had taken the play from the Wall Street crowd and that the brokers were merely doing the bidding of the vast buying public.

Orders from all sections of the country poured into the New York offices of the brokers, who have a network of "wire houses." The express company, taking care of the movement of securities, reported that the actual shipments of these valuable certificates were running from one-third to one-half greater than usual. The operations of the Stock Clearing Corporation, which serves as a clearing house for the Exchange, afforded concrete evidence of the fact that a great number of new buyers had come into the market and that the securities were being delivered to them. In a professional market, where speculation is rife, the actual delivery of stock is small when compared with the volume of trading. The large security houses confirmed the belief obtaining that the record-breaking volume could be attributed to individuals, banks and corporations that were investing their surplus funds in the shares of the great enterprises.

The Big Operator Absent

A GLANCE at the ticker tape showed the absence of a big operator like "Bet-you-a-million" John W. Gates, who coolly bought a railroad and then sold it back to the Morgans at a profit of $6,000,000. On the day that the volume ranged above 2,800,000 shares, the largest turnover of any individual stock was 85,500 shares. There are no figures available to show the tremendous number of sales of "odd-lots"—purchases ranging from one to 99 shares—for the ticker records only sales in blocks of 100 shares or more. The odd-lot sales make up about one-half of the total number of sales on the Exchange and represent about one-third of the volume. The small investor is the odd-lot buyer, and the number of these sales during the present period would speak eloquently of the growth in the army of investors placing their money in securities listed on the Exchange.

Back in 1901 the volume of trading exceeded 2,000,000 shares for nine consecutive

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Is Banking a Profession?

By E. E. AGGER
Associate Professor of Economics, Columbia University

Aim of Business Is Pecuniary Profit but the Aim of the True Profession Is Excellence of Accomplishment. Whether Banking is a Business or a Profession Depends Upon the Banker. Function of Banking as a Vital Factor of Social Progress.

BANKERS are increasingly fond of designating their specialty as a "profession." The use of this designation implies a demand upon the part of those employing it for a kind and degree of recognition for their calling that is commonly accorded to the recognized "professions." In other words, bankers like to emphasize what they believe to be a fact, namely, that banking is more than mere "business," that its function and its conduct are such as to justify for it the claim that it is really a "profession."

On what basis, it may be asked, is a distinction to be drawn between "business" and a "profession"?

It is sometimes cited as a distinguishing characteristic of a profession that it requires long and arduous preliminary training. While in general this is true, it hardly suffices as a distinguishing test. The successful conduct of many purely business enterprises also require much careful preliminary experience and training.

Again, it is said that the professions are based on more or less definitely definable rules of procedure, or that they rest on organized compilations or bodies of principles which can be systematically taught and acquired. This is also true, but again it is hardly satisfactory as a distinguishing mark of the recognized professions. A writer in the November *Century,* in an interesting article entitled "Bolstering Up the Business Man," claims that in the complicated organization of modern business successful management must rest upon the faithful study and acquisition of the principles which underlie all business.

The Distinction

LEAST satisfactory of all is the alleged distinction that business is concerned with material production while the professions are concerned with the rendering of services. Economics as a whole minimizes the distinction between the material and the immaterial. As "producers" in the economic system, no valid distinction can be drawn between the efforts of the carpenter and those of the household servant. Both contribute to human welfare. More narrowly, however, there are many callings which rest upon the rendering of personal services which never would be accorded the dignity of professions.

The really significant distinction between "business" and the "professions" is found in another field, namely, in that of purpose or motivation. The end of business as such is *pecuniary profit.* Among business men it is profit that necessarily constitutes the test of success. A good business man is one who so conducts his business as to make it indisputably profitable. Of course, this does not imply that successful business men recognize no broader claims. Practically all of them do. The best of them have a strong sense of social responsibility and of the essential solidarity of human interests. But no one will gainsay that it is one of the canons of modern business that the field of business is no place for the exercise of emotion or sentiment. The typical business attitude is well summarized in the familiar phrase, "business is business."

The aim of the true profession, on the other hand, is not pecuniary profit but *excellence of accomplishment.* To the exercise of most professions the pecuniary test of success is logically inapplicable. In the ministry, in teaching, in journalism, in medicine and in law, individual accomplishment cannot be measured in dollars and cents. This does not imply that the professional man is guilelessly innocent of all pecuniary motivation. He, too, must pay the rent and regularly meet his grocery bills. Hence he is far from disdaining selfish economic motives. But he cannot draw up a balance sheet to cover his professional accomplishments, nor does the world judge him by "profit and loss" standards.

Value of a Steinmetz

THE professional man gets a salary, or if he be an independent practitioner he charges "fees." Salaried professional men give the utmost service that they can, irrespective of the salary which, at the moment, they may receive. What they are "worth" to their employers is only roughly indicated by such salaries. It would be impossible accurately to measure what a Steinmetz or a Langmuir might be "worth" in a purely business sense to the General Electric Company. In like manner independent professional charges or fees are unlike competitive wage rates or other prices. Competitive prices are impersonal, and the more extensive and complete the competition, the more uniform they are for all buyers and sellers. Whether Mr. Rockefeller or a junior clerk in a bank purchase a yard of cloth in a modern department store the price is the same. Professional charges, however, are personal and not uniform. As the wind may be tempered to the shorn lamb, so the professional man may adjust his charge to meet the peculiar circumstances of his client. Indeed, when a professional man allows the pecuniary motive to sway him unduly in his work we charge him with "commercializing"—and by implication, with cheapening and degrading—his profession.

Now the question arises is "banking" merely "business"—or does it constitute a "profession"? In the light of what has been said above, the answer, naturally, is: "It all depends upon the banker."

There can be no question that the bank, as a bank, is a "business" institute. That is to say, its founders put up their capital to get it established for the accepted business purpose of "making money." The shares of banks are traded in in the security markets today just as other forms of business securities are dealt in.

There is a distinction, however, between merely "owning" a bank and "operating" it. The acquisition of a number of shares of bank stock does not make one a banker. Similarly the operating officials of a bank need not have only the outlook on banking of the holder of bank shares.

Something More Than Making Money

THE banker who regards his calling as a profession defines his professional success as involving something more than making money. Of course, he wishes his bank to make money because the proper conduct of the bank's affairs must result in profits. But in judging his own success the "professional banker" will not ask himself merely, "How much money did we make this year?" He will ask also, "How broad and thorough has been my more general achievement? What claims can I make to real excellence of professional accomplishment?"

Professional accomplishment in banking really is broader than money making. "Banking" has an important part to play in the organized economic life of the community. To a considerable degree the welfare of the community depends upon the efficiency and the devotion of its bankers. "Excellence of accomplishment" in banking, therefore, transcends mere accumulation of private profits. It raises the further question: To what extent, within the normal limits of its responsibilities, has banking furthered human welfare and progress?

The development of a true professional spirit in banking would thus seem to impose upon the banker himself a serious obligation. He must, through study and reflection, acquire a sympathetic understanding of the function of banking as a vital social process. He must honor it as something

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In Quest of the Ideal Currency

By BRUCE DAVENPORT

The Treasury Takes First Step to Simplify the Patch-Work Structure of Our National Currency. National Bank Notes and Greenbacks Constitute Billion Dollars of Inelasticity. The Dirty Money Problem Vexes Uncle Sam. The Ideal Combination.

THE currency structure of the United States resembles a patch-work quilt.

Making up the vast blanket of paper money that covers the needs of the nation for a circulating medium are seven different kinds of bills. While there is more or less unanimity on all sides that an ideal currency would be one expanding or contracting to meet the needs of business, the sober fact is that more than a billion dollars in currency—roughly, a quarter of all our money in circulation—is fixed and rigid. The gold and silver certificates are nothing more than warehouse receipts issued by the Treasury, certifying that it holds an equivalent amount of gold and silver. They are restricted dollar for dollar to the amount of metal on deposit, and thus incapable of being elastic.

But if the plans of the Treasury Department, just now in the first stage, take final shape, the United States will attain the ideal and at least two of the time-revered issues will disappear from circulation. As in the attainment of most ideals, the end will not be achieved overnight. It will require many years, and the ultimate currency may not be described definitely, but it probably will consist of not more than three kinds of notes—the silver certificate, the Federal Reserve note and the gold certificate.

The First Step

THE first step toward the ideal was taken a few months ago when the treasury announced that it would call for redemption the 4's of 1925. There are $118,000,000 in these bonds outstanding, and they are notable in that they bore the circulating privilege. This permits any national bank to have notes issued in its name equal to the face of the bond which it holds. Altogether there are outstanding $842,900,000 in government bonds that may be used to secure national bank circulation, but only $734,000,000 of the notes in existence. Some of the bonds have been put up to secure the deposit of public funds, and not all of the banks have availed themselves of the note-issuing privilege.

The national bank note, hailed by many bankers as the solid core of our currency, came into being during the turbulent days of the Civil War. To build up the credit of the nation, Congress decreed that before a bank could issued currency it should purchase bonds of the United States to secure the paper money. In those days, with gold and silver in hiding, the credit of the Federal government was waning. The national bank system was designed largely as a means of building up the credit of the government, and the idea of bank notes, secured by Federal bonds, was embraced as a means of creating a demand for these securities. The ideal of an elastic currency that would expand or contract as the needs of the country for money changed was scarcely in mind.

The national bank note held out the attraction of a fair return to the bank. The government, of course, paid interest on the bond. Then the bank would be given an amount of currency equal to the face of the bond, which it could pay over the counter to its depositors or loan out and obtain the going rate on the loan. But, with the passing of time, the government refunded the bonds with the circulating privilege into other issues, with lower rates of interest. The bulk of the bonds outstanding—the U. S. Consols amounting to $600,000,000—fall due in 1930, while the Panama Canal 2's are redeemable in 1936 and 1938, although they may be called in 1930. If the treasury should elect and Congress would interpose no legislative barrier, all of the national bank notes could be retired at the latest within the next 24 years, or if it should take advantage of its option to call, the last note might pass away in 1930.

With the first bloc of the national bank notes vanishing early in the new year, the treasury points way to the ultimate disappearance of this rigid patch in the currency quilt.

The Rigid Currency

THE objection to the national bank note is the same as that raised when the Federal Reserve Act was passed to end the cycle of panics that swept the United States five times in thirty years. The national currency was inelastic because it was based upon the bonded indebtedness of the United States rather than upon the liquid assets of the country. The amount of currency was limited to the capitalization of the national banks. In boom times, the amount of money available for the needs of the country could not exceed this limit. In lax times the surplus remained. There was no elasticity.

Coupled with the inelastic currency as a breeder of panics was the fictitious reserve. The National Bank Act authorized a deposit or book credit of individual country banks with banks in reserve and central reserve cities to be counted as reserve. The big city banks paid a nominal rate of interest on these balances and then proceeded to loan the money out on call for the use of stock exchange houses. The reserve was fictitious because, when the country banks, endeavoring to respond to the quickening commercial and industrial demands, sought to draw in their reserve balances—being unable to issue more currency—the big banks were compelled to call for the prompt liquidation of their loans on Wall Street. In the wild scramble to obtain money, the brokers would throw securities on the exchange and take other steps tending to send the interest rates upward. And, as other country banks called their reserve balances home, the rates mounted higher and higher until a panic was produced and the whole business fabric was torn into shreds.

The national bank note was the circulating medium in those panicky days. Its defect was its inability to respond to the altering needs of the country for money. It is for this reason that the treasury desires to withdraw the national bank note from the currency structure.

But, in taking the initial steps to bring about this reform, the treasury points out that it is merely following the mandate of Congress.

The Mandate from Congress

THE National Monetary Commission, in its memorable report filed in 1912, expressed the opinion that the national bank notes were inelastic and should be replaced by money having this property which they lacked. The Federal Reserve Act contemplated the gradual retirement of the notes, and a provision was incorporated in the bill permitting the Federal Reserve Board to buy, two years after the passage of the act, $25,000,000 annually in these bonds bearing the note privilege. The war intervened, however, and the purchases were halted; so that thus far only $64,000,000 in these bonds have been actually presented for conversion and redemption.

In calling the 4's for redemption, the treasury asserts that it is just carrying out the approved plans.

However, Secretary of the Treasury Andrew W. Mellon announces that no further move is contemplated until the passage of the McFadden bill, which amends the National Bank Act in many particulars with the view of placing the national bank more nearly on a parity with the state chartered institutions, or until some remedial legislation to help national banks is enacted.

The national banks have registered their disapproval of any move which will deprive them of the right to exercise the note-issuing privilege, because it not only takes away from them the most distinctive privilege remaining, but does away with a source of some profit. The treasury is unwilling to do anything that will materially hurt the

national banks, because their membership in the Federal Reserve Board is compulsory, and the note-issuing capacity of the Federal Reserve banks is absolutely dependent upon the membership of the members.

"It has been suggested that this may not be the proper time to take such action because of the fact that there is already a widespread feeling among national bankers that they are considerably handicapped in their competition with state institutions by the fact that their banking powers generally are more restricted than those of the state institutions," Secretary Mellon told Congress. "But the proper answer to this suggestion would seem to be not to continue a bank-note currency which is generally agreed to be unscientific and of a more sentimental than material value to the issuing banks, but rather to amend the national-bank act so as to give to those national banks whatever additional banking powers may be necessary in order to enable them effectively and properly to compete with state institutions."

The Greenback Patch

A PATCH of another hue in the currency structure is that represented by the U. S. Legals—the greenbacks.

There are $346,000,000 of the greenbacks in circulation, secured by only $152,000,000 in gold in the vaults of the United States Treasurer. The U. S. Legals are a reminder of the days of fiat money—when there was great agitation throughout the land for money issued upon the "faith and credit" of the government without the backing of any metallic reserve. But under the law of the nation the treasury must keep the $346,000,000 of the greenbacks in circulation. There is no escape.

With the advent of the Federal Reserve Act, there came into being a real elastic currency, responsive to all reasonable demands of legitimate enterprise. The Federal Reserve note is based on a staple commercial transaction, fortified by a 40 per cent gold reserve, the assets of the banking system, the double liability of the member banks and the faith of the government. The volume of money in circulation is regulated by the volume of business, so that in stirring times of expansion the flow increases, while in lax times the money not needed is cancelled. The practicality of our money system was proved during the war-time period when from 1914 to 1920, the circulating medium swelled from $3,402,000,000 to $5,628,000,000.

The Hardy Silver Dollar

DURING the past few months, Assistant Secretary of the Treasury Charles S. Dewey has made an intensive study of the whole currency structure, not alone from the viewpoint of economical considerations, but also from the mechanical angle. The shortening in the life of the dollar bill has brought a testy little problem. Its mortality has grown at such a spirited pace that it is now costing the government three cents a year to keep a dollar bill in circulation. Too offset this growing expense, the treasury hopes to restore thirty million silver dollars to the money supply of the continental United States and is planning to put ten million "cart-wheels" in our insular possessions. The longevity of the silver dollar is surprising. It is figured a saving of a million dollars a year could be effected if the forty million silver dollars displaced an equal amount of paper currency.

The problem of the dollar bill whether it be a silver certificate, a greenback or a Federal Reserve note is a live one with Uncle Sam. The banks are complaining about "dirty money," hinting that "filthy lucre" as a designation for the $1 bill is no misnomer. The people are using more of the dollar bills than ever before and they are carrying more currency in their pockets. The automobile has done its part toward shortening the life of the bill for the attendants at the gasoline filling stations, with their hands grimy with oil stains, make millions of dollars unfit for further use, when it is tendered for gasoline and oil for the automobile. The working man, it is found, is carrying more paper money on his person. The banks send the dirty money on for redemption.

The steadiness with which the stream of grimy dollar bills has come into the Federal Reserve banks has forced them to adopt new regulations. At one time, the reserve banks issued the banks 60 per cent of fresh new notes and 40 per cent in "fit" notes—bills that were reasonably clean and crisp enough to stand up when held by the edge in exchange for the package of dirty notes. The demands of the banks for clean money were so strong that the ratio had to be cut down until now only 45 per cent of new notes can be sent back in the exchange of dirty for clean money.

Washing Dirty Money

THE expedient of washing money as a means of cleaning the dark patch in the currency blanket was resorted to for a while, but it has now been given up. In the washing, it was found that some of the ink on the engraved bill came off as well as the dirt. The washed bills, when sized and ironed out, stretched a little bit. Thus two standards of paper money were created. It made it easier for the counterfeiter to get in his art because the public, becoming accustomed to the two standards, could not easily discern a spurious bill from a genuine note.

But this concerns a phase of clean money. What the treasury wants is sound money.

What is Planned

SECRETARY MELLON has removed all doubt as to the intention of the Treasury to retire the national bank notes.

He told Congress that the calling of the 4s in February "may be regarded as the initial step in a program which, if not interrupted or curtailed by reason of circumstances or conditions not now discernible, will result ultimately in the retirement of all bonds bearing the circulation privilege."

"This program will provide for the retirement of the 2 per cent Panama Canal loan of 1916-1936 (in principal amount of $48,954,180), and the 2 per cent Panama Canal loan of 1918-1938 (in principal amount of $25,947,400), at some date after the passage of the contemplated legislation for the relief of national banks, but before the callable date of the 2 per cent consols of 1930.

"The 2 per cent consols of 1930 are not redeemable until after April 1, 1930. By that time the national banks will have had ample opportunity to adjust themselves to the Treasury's plan to retire national-bank circulation. Furthermore, they will then have fully availed themselves of the additional benefits afforded by changes in the national-bank act, if amended. The 2 per cent consols of 1930 should therefore be retired as speedily after April 1, 1930, as may be consistent with other fiscal operations of the Treasury.

Buying Bonds At Premium

"IT may be suggested that, if the condition of the Treasury precludes the payment in cash of any bonds that are called in accordance with this program and necessitates their refunding into other securities, it would result in increasing the interest obligations of the Treasury. But notwithstanding the possibility of having to refund these bonds at an increased rate, the importance of simplifying our currency system by the elimination of the national-bank note is paramount, and the increased interest rate in such event might properly be considered an investment in behalf of a sound and much-needed monetary reform.

"Moreover, an increase in the interest rates on a relatively small proportion of our national debt would not be a net loss to the government, because, to the extent that the national-bank notes withdrawn from circulation are replaced by Federal Reserve notes, the circulation of the latter would be increased and this would tend to increase the profits of the Federal Reserve banks—profits in which the government has very liberal rights of participation.

"It has also been suggested that the retirement of the national-bank note circulation would result in currency shortage. It is believed, however, that there is no sound basis for the fear that any undue or harmful contraction of the currency would result. Even if the Panama Canal loans callable in 1916 and 1918 respectively, and the 4s of 1925 should all be called at the same time, the resulting contraction in national-bank circulation would not exceed approximately $151,000,000, or less than 4 per cent of our total paper currency outstanding."

"As to the suggestion that national-bank notes are a necessary part of our currency in times of emergency or unusual credit expansion, it may be pointed out that on Dec. 23, 1920, when Federal Reserve note circulation was at its maximum ($3,405,000,000), the available reserve against such notes was 49.8 per cent after setting aside 35 per cent against deposit liabilities. It would have been possible at the peak of expansion, therefore, for the Federal Reserve Banks to have issued $831,000,000 additional Federal Reserve notes—over $100,000,000 more than the entire amount of national-bank notes then in circulation—without lowering the reserve against Federal Reserve notes below 40 per cent.

"But conditions prevailing in 1920 and 1921 were unusual and it is not likely that we shall have a repetition of them. It is hard to contemplate a condition of the Federal

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Practice and Ethics in Banking

By C. A. CHAPMAN
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The Growing Need for a Code of Ethics to Cover Banking Operations. Vocation Must be Regulated From Within or be Regulated From Without. How the Public's Attitude Has Changed. The Good That Will Come From the Saluting of Our Conscience.

PHILOSOPHY has always been ridiculed by practical men as trite preachments for the simple-minded, but the fact remains that the practical passes out and that preachments survive. It may be accepted that this primitive attempt at ethical pronouncement for the business world will be followed by some definite and detailed expression and acceptance. The many are demanding it, and it is inevitable.

In the business and professional world the one great problem is that of measured service—a fair exchange of a fully measured and honestly rendered personal service for a fair compensation. This cannot be determined by inflexible rules, and barter must continue as one of the means for the finding of common grounds, but barter should grow more frank and honest, and the spirit of fairness be developed by every means within reach.

The profession of banking has no intention of evading its share in this progressive movement. We find a number of the bankers' associations of the various states already at work upon the subject, and this in response to improved conceptions, practices and principles, increasingly followed by a growing number of the banking profession.

The Banker's Province

LET us indulge in a little self-examination. What has led up to this trend for the application of new controls and restraints to the banking business? Banking is and always has been a money-making business. It cannot be gainsaid that the really successful banker is one who aids his clients in the making of money and safeguarding them against the loss of it. The more thrifty the clientele, the more thrifty the bank. Aiding clients in successful and safe ventures and deterring them from losing ventures saves resources and therefore marks the progressive banker.

But at this point the invitation open to the banker to personally join in at least some of this venturing is very strong. Many bankers have acquired wealth as a result of it. Others have joined clients in losing ventures and have lost their wealth or a considerable part of it. Sometimes their losses were in excess of their own resources and resulting defalcations and unhappiness extended out into the community. Even when this did not happen, the banker has frequently attempted to occupy the dubious combined position of borrower and lender. As banker he loaned the money to enterprises which were really his own, and he actually the borrower. Then losses occurred.

These losses to the bank have extended sometimes beyond the protective margin represented by capital and accumulations, and such losses have invaded the accumulations of depositors. At this point the public has intervened. Such intervention has increased rather than decreased in recent years, and bank examiners now participate in the affairs of the banks to a degree which would have been regarded as intolerable by the bankers of two generations ago.

It is plain that such a business as banking, opening as it does in this way opportunities for private gain, could not but prove inviting to unprincipled men. During the time that the vocation was regarded as a purely private business and before its recognition as a quasi public business, interference seemed impossible, and men of no character undertook to conduct banks. Their elimination has involved a struggle which is not yet over, nor can this struggle be won until such a stage is reached as will place banking in the same ethical group with those professions which impose upon themselves restrictions of the most moral and binding character, backed up by solidified opinion.

Shaping of Sanctions

THE periods surrounding 1893 developed much new thinking along ethical and banking practice lines. Banking and finance lost their trade secret character in 1895 and 1896, when experiencing popular discussion on the street, the curbstone and in the shop. Heresies of all sorts were exploited, fiat money advocated and a lunatic hue covered the financial sky as the infection spread to leading men and true measures of value and credit seemed lost. The phase passed. We recovered our reason, and there was a net benefit result. The residuum left in the minds of the business and professional groups of the nation was more knowledge of the basic laws of moneys and credits and a desire for more improved and more elevated ideals in the handling of the pooled finances represented by the banks.

The attainment of these ideals lay not in devising new instrumentalities, but in establishing new moral sanctions. Out of the period grew a definite demand for high motives and principles in banking, as indeed the demand arose likewise regarding every department of activity outside of banking. Bankers began to speak of the "trust" relationship they occupied and gradually submitted to an increasing surveillance and supervision by state and nation which a previous generation would not have endured.

Out of the thinking of the past twenty years there has developed one definite control or sanction which is on the way to general recognition and application. A bank is not nor should it be a personal money-making shop of its managers. When this principle is enunciated a long step forward has been taken. With its recognition should come the corollary one that the manager should not borrow at all at his own bank, or if he does, the borrowing should be very definitely limited to a small current requirement and never under any conditions take the form of a capital or investment loan.

Carrying the idea further, there are institutions which do not permit borrowing by their own directors from the banks they direct. The time has not yet arrived, however, for the adoption and application of such a rule, the result of which would be to deprive the bank of the services of active, experienced business men and compel them to fall back upon retired business men or those not in direct contact with current conditions.

Revealing Controlling Principles

IT is not proposed to set up a commercial ecclesiasticism and apply penal sanctions and penalties to the conduct of each other, but it is proposed to make vital and a common possession the controlling principle revealed in the experiences of the profession and add to that the development of a common conscience and a professional public opinion which will exert a compelling moral suasion.

Certain simple principles of good morals are woven throughout the fabric of professional and business service. Transgression of these principles produces consequences hurtful, not alone to those immediately affected, but remotely to the entire profession and to society at large. To prevent such transgressions and a recognition of ethics and good practices, we need the spirit of performance rather than penalties. It is the lack of the spirit of law observance which is breaking down American government today. Moral sanctions and ethical principles look for their enforcement to a spirit of acquiescence and performance, and unless this is present, both morals and law fail.

One thing is certain. We shall have to regulate our own vocation from within or be regulated from without. We have experience enough at present with legal intervention in every direction. Calling in the legislators is like calling in the junk man; the machine is wrecked and the junk man gathers a little more brass. We must set our

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It Helps the Wool Market

By C. B. SHERMAN
U. S. Department of Agriculture

As Its Contribution to the Betterment of Market Conditions the Government Standardized the Product and the Grade Names. The Practical Application of These Improvements. A Beginning Made to Bring About International Wool Standards.

OURS is one of the principal wool-producing and consuming countries of the world, and although we produce more than two billion pounds of wool each year, we import about one-half as much again as we grow. In spite of the importance and size of this industry, the market during recent years has not been entirely satisfactory.

Many factors contribute to its lack of stability, such as the wide range in quality, length, character, shrinkage and other elements of condition of the product, effect of changing climatic conditions, competition of foreign wools offered for sale at the same time, and the fact that most of the mills do not buy ahead, but make purchases according to orders received, and there are a relatively small number of dealers.

Almost the entire clip is purchased during the months of May, June and July by merchants and distributed to the manufacturers according to their requirements. In some cases true competition for the clip exists, while in others there is evidence of a lack of competition, with growers at a loss to find more than one or two outlets for their clip. Wool growers' marketing associations have provided an additional outlet for wool growers, and in sections where these marketing organizations function it has been found that greater competition for the clip was created.

As its contribution to the improvement of the wool market, the United States Department of Agriculture chose two fundamental lines of work, which it has prosecuted for several years—standardization of product and of grade names and development of a reliable news service.

When this work was begun, the grades used in one part of the country were neither known or used in other parts, even in one locality they sometimes changed with time, and grade names were often used interchangeably, with much resulting confusion.

Accurate Comparisons Not Possible

EFFECTIVE news and quotation work were scarcely possible under these conditions, costs in different parts of the country could not be accurately compared and even the elementary work of teaching growers how to improve the wool they grew was handicapped, because most growers did not know what constituted poor wool from the viewpoint of the user and could not actually foresee the disadvantages of cotted, burry and seedy wool.

The problem of the standardization of wool is complex, for ultimately it must be approached from the standpoints of diameter of fiber, length of staple, shrinkage, presence of foreign matter, spinning properties and color, and the domestic wool clip exhibits a wide range in each of these characteristics. In attacking this problem the Department of Agriculture chose diameter of fiber, the most important factor and the one most thoroughly understood by the average sheep man, as the first property around which to develop standards.

When these standards had been completed in a tentative way after several years of study and experimentation, in which representatives of all phases of the wool industry took part, including some bankers from wool growing and wool marketing centers, they were tried out under widely varying commercial conditions and were finally officially promulgated for use in grading wool stored in warehouses licensed by the government. Since then their voluntary use has been greatly extended all along the line from growers to manufacturers. Bankers are interested in extending their use, since they provide a means for appraising wool in the making of loans.

Practical Use of the Standards

AMONG the large growers' associations that are using these official wool grades is the Pacific Wool Growers Association. This organization is applying them this year in the handling of an estimated four million pounds of wool. Prominent wool dealers in Boston, Philadelphia, Chicago and St. Louis are using them. Woolen materials now being used by the City of New York are purchased on the basis of official standards. An instructor in a textile school refers to the grades as being already indispensable. A worsted yarn manufacturer declares that he has found the standards helpful in making purchases of wool or tops. The manager of a leading wool pulling establishment states that the grades are valuable in keeping pullers in line as to grades. The state grader of the Oklahoma State Marketing Commission writes that Oklahoma has adopted the Federal grades as its state grades, and the commission expects to use the wool standards in demonstrating to wool producers in that state the relative difference in quality and value of the various grades. The wool department of one of the large packers says that a large number of people outside the wool trade, entirely unacquainted with the system of wool grading, as well as members of the trade, are glad to see the department develop a wool standard for the country. In fact, it is estimated that approximately 25 per cent of the wool clip of 1924 will be graded on the basis of Federal grades. One factor that has greatly strengthened their use in producing areas is the fact that much of the wool graded and marketed in accordance with the Federal grades has brought a higher average return than ungraded wool from the same section.

A Joint Committee on Research and Standardization, representing the wool manufacturers' associations and the National Association of Worsted Yarn Spinners, is cooperating with the Department of Agriculture and the Department of Commerce to secure further adoption and use of the official wool grades. At a recent meeting of the National Association of Wool Growers a resolution was adopted looking toward their cooperation in this work through a committee and asking for further development of these standards. As a further indication of the widespread wish to cooperate in the work it is pointed out that several bags of wool, shorn from sheep owned by the government at the Idaho Experiment Station, were sent to Washington for use in preparing official wool grades. In return for the wool, the Idaho Station asked to be advised how the wool graded in accordance with the official standards, and asked for an estimate as to the shrinkage of the wool.

International Grades Considered

CONSIDERABLE interest is now being shown in the possibility of international standards for wool, to be brought about through correlating the grades now used in the two countries. It would be an advantage to our dealers and manufacturers to buy both domestic and foreign wool according to the same grades. Much of our imported wool comes in under the British commercial classification, and some trading here is done on the basis of the British trade grades, but the British classification is not always interpreted in the same way in England and in America. The British Wool Federation, representing three British spinners', manufacturers' and merchants' associations, is interested in the proposition.

As there are no official British standards, leading representatives of the industry were

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The International Thrift Congress

By CHARLES A. MILLER
President, The Savings Bank of Utica, N. Y.

Discussions of the Delegates Who Gathered in Milan Limited to Five Subjects: Organization and Legislation Propaganda, Especially Among the Middle Classes. Within What Limits Should Savings Banks Act. An International Body to Study.

As one's cab rattled over the paving stones of the Via Monte di Pietà and around an angle, the building of the Savings Bank of the Province of Lombardy came in sight. Built of huge granite blocks in a style which reminds one of the old Greenwich Savings Bank in New York, it covers an entire square and presents an appearance of dignity and irrefrangible strength. Its heavily barred windows, high above the heads of the passersby and the massive gate barring entrance to its courtyard suggest the idea of defense and protection, rather than the more modern theory of cordial and democratic friendliness to thrifty depositors. The upper windows were gay with splendid rugs, and carpets hung out in honor of the Congress and gave one an impression of old world festivity which was worthy of Italy at its best.

The sessions of the Congress were held in an auditorium on the first floor, but though several hundred could find seats in this chamber, and there were committee rooms, a buffet, an exhibition room, where posters, advertisements and objects of propaganda were displayed, a large anteroom, big enough to hold all the six or seven hundred delegates comfortably, and rooms used by the president, the vice-presidents and the secretaries of the Congress, one had always the impression of having seen but a small part of the building. On the floor above, which was ordinarily not visited by the delegates, the arrangement of rooms seemed to be duplicated, even to the existence of another auditorium equally as large as that below. The setting of the Congress, then, was spacious, and the surroundings palatial and magnificent. No savings bank in America could have entertained a conference of this size in its own offices, nor could any have shown surroundings of superior architectural and artistic merit.

The opening scene of the Congress, however, did not take place here, but at the Lyric Theater, at 10 o'clock on Sunday morning. The delegates were seated in the stalls, while the boxes and galleries, decorated with the flags of the nations participating, were filled with diplomatic and consular representatives and those prominent in the official and social life of Milan.

Mussolini Comes

The stage was set apart for the government and municipal authorities and the committee in charge of the arrangements for the Congress. Brilliant uniforms interspersed among the formal black worn by most of them lit up the scene in a way to which we, of the West, are quite unaccustomed.

Presently there was a stir, and everyone on the stage arose, while those in the parquet and boxes were quick to follow their example. There was cheering, and a rather pale, thick-set man of medium height crossed the stage and took a vacant armchair in the center, immediately to the left of the Cardinal. It was Mussolini, who had come from Rome to honor the Congress with his presence.

There followed speeches of welcome by the mayor of Milan and by Cesare Nava, the Minister of National Economy, and a reply by the Marquis de Capitani, the president of the Savings Bank of Lombardy. These speeches were delivered in Italian, of course, but printed translations in English and French were distributed to the audience and made it easy for everyone to follow what was said.

Down to Work

On the following morning the work of the Congress began in earnest. The Marquis de Capitani was chosen president, and vice-presidents representing France, Germany, England, Italy, Spain, Czechoslovakia and the United States were named. From then on the work continued daily from 9 to 6, with a recess for luncheon, except on Tuesday, when all the delegates were taken on a trip to Lago Maggiore as the guests of the Savings Bank of Lombardy. The fact that the deliberations were tri-lingual lengthened the proceedings and made the greatest diligence necessary, for every speech had to be translated twice after its delivery. The formal proceedings and all committee meetings were conducted in French and were translated into English, but each speaker addressed the assembly in the language which he preferred, which was not always his own. For example, the most eloquent address was that of a delegate from Brazil, representing the Savings Bank of Rio de Janeiro, and was given in Italian; and the delegate from Prague insisted in using only English, though his technique was of a kind to puzzle his English-speaking auditors and utterly to confound the interpreters. Dr. Pospisil, who, by the way, is the Czechoslovak representative on the Council of the League of Nations, always addressed the Congress in French.

In Three Languages

The formal papers were printed in advance in the three languages so that the interpreters were only obliged to summarize them, but the less formal discussions which followed the presentation of each subject had to be translated at least once and in some cases three times. Even then, there must have been many delegates, especially the Germans and Austrians, who missed much of what went on. Certainly the unconscious effort which everyone made to follow a continuous discussion carried on for the most part in foreign tongues proved fatiguing especially to the English and American delegations, who seemed less gifted as linguists than their continental associates.

The Congress limited itself to five subjects of discussion.

1. Organization and legislation of the savings banks in various countries.
2. Propaganda for savings, especially among operatives and the middle classes.
3. Safeguarding the emigrant's savings, particularly by the use of an international pass-book.
4. How far and within what limits the savings banks may act as, and perform the functions of, banking concerns without frustrating their own ends and scopes.
5. The institution of an international body to study and coordinate the activity of the savings banks.

Obviously, almost anything affecting savings bank work could find its way into the discussion of one or the other of these official themes, and, in fact, many more or less debatable matters came up which, very likely, were never intended by those who drafted the program to come before the Congress. For example, a suggestion made by Professor Ravizza, who led the discussion on propaganda in a very able paper, to the effect that there was no good reason why savings institutions should limit their educational work to the poor when the rich needed, quite as much, to be taught to save, led to a discussion of the removal of all legal limitation on deposits. A large number of those present seemed to believe that the time was ripe for doing away with all "restrictions on thrift" and for the encouragement of the large depositor as well as the small. Mr. Helmstok, on the other hand, who represented the Post Office Savings Bank of Great Britain, pointed out that the experience of that institution in removing all limitation, as was done during the war, had proved unfortunate later when the general interest rate had fallen below the interest allowed to depositors in the savings bank. As a result, large financial institutions began to use the banks as a place of temporary deposit for considerable

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Board of Tax Appeals Has Heard 190 Cases

By CHARLES D. HAMEL,
Chairman, United States Board of Tax Appeals

From 40 to 60 Cases Are Now Set Down for Hearing Each Week. Some of the Earlier Questions Which Have Been Raised and the Conclusions Which the Tribunal Has Arrived At. Decisions Are Pending on Several Far-Reaching Questions.

TO students of the financial and economic condition of our people, there is no recent development of greater interest and of more practical importance than the establishment of the United States Board of Tax Appeals. Created by the Revenue Act of 1924, and organized on July 16, 1924, it has been functioning approximately four and one-half months. During that time it has accomplished sufficient to get some idea of what may be expected of it in the future.

Prior to the passage of the Revenue Act of 1924, under the practice of determining and assessing additional taxes, there were certain grave fundamental defects which led the public to feel that it did not receive unprejudiced and equitable treatment. The only appeal that a taxpayer had as to taxes assessed through subordinates of the Commissioner of Internal Revenue prior to the payment thereof was an appeal to the Commissioner or other subordinate of his. Taxpayers naturally felt that the Commissioner, if zealous in the performance of his duties, would collect as much of the revenue for the government as possible, and accordingly his inclination would be to decide all doubtful questions against the taxpayer, and his subordinates or employees, whether in the Income Tax Unit or a disconnected reviewing body, would be guided by similar motives. This situation led to a feeling on the part of the public that cases in the Bureau were not always decided upon their merits. It was pointed out that the appeal from the action of the Income Tax Unit was usually taken to an organization which was a part of the Bureau itself; that the person who decided the appeal acted both as advocate and judge, since he must both protect the interests of the government and decide the question involved, and that such conditions did not insure impartial decision of the cases. If the decision was in favor of the government, the taxpayer only after payment of the tax had the right to protest the decision in the courts, and if the decision was in favor of the taxpayer, the action was final and the decision of the Bureau could never be contested in the courts. It was contended that this condition resulted in the decision of many doubtful points in favor of the government.

It is true that prior to the passage of the Revenue Act of 1924 it was possible for the taxpayer, after payment of his tax, to bring suit for the recovery thereof, and thus secure a judicial determination of the question involved. He could not, however, in view of the provisions of the statute which prohibits suits to enjoin the collection of taxes, secure such a determination prior to the payment of the tax. This situation frequently resulted in great hardship. The payment of a large additional tax on income received several years previous and which may have, since its receipt, been either wiped out by subsequent losses, invested in non-liquid assets, or spent, sometimes forced taxpayers into bankruptcy, and often caused great financial loss and hardship.

This situation brought about discussion which resulted in the establishment by Congress of the Board of Tax Appeals, the members of which shall be appointed by the President, with the advice and consent of the Senate, solely on the grounds of fitness to perform the duties of the office. The Board constitutes an independent agency in the executive branch of the government, designed to stand impartially between the taxpayer and the Bureau of Internal Revenue. In creating the Board of Tax Appeals, Congress sought to mitigate the harsh rule of payment first and litigation afterward. It was created to give the taxpayer a chance to have an open and neutral consideration of his tax liability before he is required to pay it.

The Board of Tax Appeals is in effect a judicial tribunal of limited jurisdiction. It has power to review determinations of the Commissioner of Internal Revenue with respect to income and profits taxes, estate taxes, and the new gift tax, although the extent of the jurisdiction of the Board in some cases where the tax arises under past revenue acts is being questioned by the Commissioner. The Board is not merely a newly created higher division of the Bureau, or even of the Treasury Department. It is, in the language of the statute, "an independent agency in the executive branch of the government," and as such it is expected to act independently in all its determinations. This independent character cannot be too firmly emphasized. If the Board were within the Bureau, the entire records of the Bureau would be available to it, and all of the administrative aspects of each case would need be considered. Thus the taxpayer would be in much the same situation as he has heretofore been before the Bureau.

Has No Fear of Administrative Precedents

THIS is very apparently not what Congress intended. The reports of the Congressional Committees and the language of the statute show that what was intended was an entirely independent body with no motive except to apply the law to the facts in each case and reach the correct answer in that case. The Board is not to collect the revenue and hence it has no fear of administrative precedents. Its concern is to see on the one hand that the citizen is not unjustly assessed and on the other that in the collection of its just revenue the government is not unduly delayed. The Board represents neither party. Both parties are represented by their own advocates.

We are familiar with the growth in recent years of the special tribunal outside the judiciary. In the Federal government the Interstate Commerce Commission and the Federal Trade Commission are well known examples. Such bodies have a composite function to perform, both judicial and legislative. They are largely concerned with the legislative function of prescribing specific rules of conduct for the future—and to that end they determine the facts of the past. Their primary interest is not for the parties but for the public, so that carriers' rates and business practices shall be fair. Their problems are more economic perhaps than legal.

This Board has no such legislative function and the problems which it solves are only indirectly economic. They are primarily legal. The Board must see that a specific statute is correctly applied to a completed and past state of facts and the specific liability of a single person under that statute correctly determined—a purely judicial duty.

The Board in so brief a period of necessity has not decided many cases, nevertheless, there have been some opinions which may be of interest. As would naturally be supposed, a number of very important jurisdictional questions have been raised. The question of whether or not the Board has jurisdiction as to claims for refund arose very early, and the Board decided in the

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Some of the Major Problems

By JAMES E. CLARK

THE caution recently issued by the American Federation of Labor relative to the establishment of any more banks by bodies of organized labor reveals the sagacity of the Federation.

The development of the so-called labor banks during the last few years has been one of the marked commercial movements, commanding widespread attention because of a certain inherent novelty in the fact that labor seemed to be turning capitalist, though as a matter of fact labor was just as much a capitalist before the advent of the labor bank as it was after the movement started.

The initial success of these banks apparently has turned many minds toward the possibilities of commercial success, and possibilities, too, in connection with the use of the banks in the crises which so frequently occur in the life of organized labor.

But a labor bank can differ but little, if at all, from any other bank. It is amenable to the same statute laws as are others and to the same economic laws. No matter how strong its sympathies may be in labor's hour of stress, the bank cannot set aside, even if it would, the stern requirements of safe banking. Inexorably, the rules of banking confront all men alike. The loan which is a safe loan for a labor bank is likewise a safe loan for any bank, and the loan which is doubtful for an old-line conservative bank must be doubtful still for a labor bank. In one sense the hand of responsibility is laid upon the labor bank with even more emphasis than upon other institutions, because from its very name, the labor bank may attract deposits entitled to the most prudent and jealous care that can be devised.

Yet even the most enthusiastic advocate of labor may find satisfaction in the warning of the Federation, for if banking enterprises in the course of time are going to advance the condition and remuneration of labor by direct or indirect action, what a misfortune for labor if the prospect should be spoiled or delayed by a headlong rush into finance with the obvious dangers attending haste! Labor has made its first advance into banking; now let the vicissitudes of time determine the next step in progress.

Whatever labor may gain from its banks, it probably will derive no greater benefits than will capital. The more successful the labor banks become, then the more must labor as a class learn of those exactions of banking and finance which sometimes lead to misunderstandings. Through these new institutions the hard lessons of finance will go down the line with less resistance than through the ordinary channels of education. The more of a "capitalist" and the more of a successful capitalist that labor becomes, the greater the safeguard of the whole capitalistic system.

Still the Continent of Opportunity

THE turn of events shows that the placing of bars against immigration has not prevented the peoples of the old world from participating in the benefits of America. This is still a land of opportunity for peoples of other nations, but the opportunity is now presented to them in a new form.

Though comparatively few now may emigrate, America, through its immense foreign loans, is helping to bring about improved conditions in the home lands. With the capital going abroad and the new spirit rising out of the ruins of the long war, opportunities once undreamed of may still be developed to men at home who, if they could, would have emigrated.

And the use of this capital should be more potent for general benefits now that so many peoples are unhampered by unsympathetic governmental systems than would have been possible under old régimes.

In the 1922 convention of the American Bankers Association, held in New York City, the bankers of America unequivocally voiced their interest in the peoples of Europe and their desire to further aid in helping in the restoration. The friendly attitude of financial America was revealed in various addresses and in a formal resolution declaring that the time for help had arrived. Since then there has been a steadily increasing number of foreign loans, all of which have been subscribed with alacrity and many have been greatly oversubscribed.

During the present year foreign loans publicly subscribed in the United States have exceeded $1,135,260,000, approximately three times as much as the foreign loans of last year, which year in its turn showed a very marked advance over its predecessor. The outstanding loans in a series of about 40 issues were the Japanese loan in February of $150,000,000; the German loan of $110,000,000, and the French loan of last month in the amount of $100,000,000.

It is estimated that in 1914 there were 500,000 holders of foreign bonds in the United States; now it is estimated we have 15,000,000 holders of foreign securities. The size of the issues and the rapidity with which they have been absorbed seems fully to justify the conclusions that American investors no longer look askance upon the foreign securities.

Still other foreign loans are in prospect in the coming year, and each will of necessity create additional employment for men overseas, and create new opportunities in the old homes.

America is still the land of opportunity even for those who cannot come to it!

One Hundred Years

THE benefits radiating from some public improvements are so great that their completion marks a forward step on a national scale. The Arthur H. Smith Memorial Bridge across the Hudson River, a little south of Albany, is a public improvement of that kind. Built by the New York Central Railroad Company as an incident in the development of a great railway system, the economic benefits of this engineering achievement will nevertheless extend practically from the Atlantic to the Pacific, since the structure sharply expedites the transportation of freight to and from both Boston and New York harbors.

Formerly there was delay due to congestion in the freight yards at Albany. Now the bridge and its approaches consisting of what is known as the "Castleton cut-off" permits the moving of freight without going into Albany. The cut-off including the bridge is 28 miles long, and at the east end of the cut-off there is a freight yard with a capacity of 11,000 freight cars. The magnitude of the yard may be suggested by its dimensions. It is seven miles long and five miles wide.

We have said that such an improvement is national, and indeed it is, for every bit of speed that is gained in transportation of freight, both perishable and non-perishable, is a gain both for the producer, whether he be western rancher or manufacturer, and for the consignee, whether he be merchant or the ultimate consumer. A peculiarity of economy in public service is that it can be realized upon only as the economy is passed on to the public.

The opening of the bridge, occurring an even 100 years after the opening of the Erie canal, the first great public improvement for expediting the transportation of freight across New York State, is, therefore, also a transportation and engineering century monument. The great contrast between that age and this is revealed by the cost. The original Erie canal, 363 miles in length, cost only $7,602,000. It was in its time a great engineering project. The Castleton cut-off of only 28 miles cost $25,000,000, though it is only a detail of improvement in a modern system of transportation.

And now that we have seen the first dawn of a new era of transportation, wherein the engineer rises above the rivers and mountains instead of bridging and tunnelling, what may not another century bring forth? Whatever new advances there may be, one fact will probably be unchanged, and that is that cities rise, prosper and grow at transportation terminals.

The Dead Letter in Rural Credits

By LEWIS ALEXANDER

Failure To Provide Rediscount Facilities for the Paper of The National Agricultural Loan Corporations, Authorized Under Intermediate Credits Act, Blocks Formation of These Institutions. Were Designed To Help Finance Livestock Raisers.

WHEN the Intermediate Credits Act was rushed through Congress during the waning hours of the 67th session, it carried a twin authorization. Besides directing the establishment of twelve Intermediate Credit Banks to provide the farmers with this type of credits, it authorized the chartering of National Agricultural Loan Corporations to aid the livestock industry in financing the raising of cattle.

The supervision of the corporations was placed with the Comptroller of Currency. Provision was made for the appointment of another Deputy Comptroller to deal with the chartering and supervision of these livestock loan corporations which it was anticipated would spring up in the western States.

But more than nineteen months have elapsed since the law was signed by President Harding and not a single National Agricultural Loan Corporation has come into being. This part of the Intermediate Credits Act is without force. The reason for it is the failure of Congress to provide for rediscount facilities for the paper of the corporations. The livestock loan associations, now chartered under State laws, find scant advantage to be gained from obtaining a Federal charter to engage in the same operations.

TO secure the funds for their operations, the National Agricultural Loan Corporations were empowered to sell three-year collateral trust notes up to ten times their capital and surplus. Or, inasmuch as provision was made for the organization of a rediscount corporation to have a capitalization of not less than $1,000,000, it was stipulated that they might have their paper rediscounted by this larger corporation. But like the National Agricultural Loan Corporations, the Rediscount Corporation has never been set up.

The loan corporations were empowered to discount agricultural paper having a maturity of not exceeding nine months on non-perishable agricultural products and cattle paper not exceeding three years. The Federal Reserve member banks were given authority to invest up to 10 per cent of their paid-in capital and surplus in the stock of the corporations.

THE weak spot in the law was the failure to furnish any rediscount tie-up that the livestock loan associations did not have. The Act authorized the Federal Reserve Banks to rediscount the paper of the Intermediate Credit Banks but this right was not extended to the corporations to be set up to take care of the livestock raisers. The right to issue tax-free debentures was not invested in them, either. So the rural credits law gave the livestock industry little that it did not have before the legislation was passed, because the loan associations always had the privilege of selling their paper in the open market to anyone who would buy it. Livestock raising requires three years or more to breed mature cattle and loans for the purpose of fattening cattle for the market must run nine months to fit in with the needs of the industry.

There is talk in Washington that Congress, at the present session, may be asked to amend the Act so that rediscount facilities will be provided for the National Agricultural Loan Corporations. Until something of this kind is afforded, it is asserted that this part of the Act will remain a dead letter.

WHEN Senator Capper of Kansas, then head of the farm bloc when the agrarians were at the height of their power, sponsored his measure for providing rural credits, it was called "an incredible thing." At a time when Congress was seemingly willing to do its utmost to appease the farmer—and appeasing anybody usually means giving without stint from the Treasury—his legislative proposal called for no money from the national exchequer to bring about the desired end of breaking down the partitions between the admittedly vast private credit system so these resources might flow on to the farmer.

Senator Lenroot of Wisconsin sponsored another measure, calling for the setting up of twelve intermediate credit banks with a Federal appropriation of $50,000,000. Both bills provided for amendments in the Federal Reserve Act extending the time of the maturity for paper, eligible for rediscount at the Federal Reserve Banks. These amendments were regarded as the backbone of the Rural Credits Act because the Reserve Banks were authorized to rediscount paper running more than six months. When all of the bills were merged into one, the provisions authorizing the chartering of the National Agricultural Credit Corporations contained in the Capper Bill were retained. That the head of the farm bloc should sponsor a farm credit bill requiring no outlay of Government bonds and proposing no new taxes or tax-exempt bonds, was commented upon widely, inasmuch as Senator Lenroot, an outsider of the much mooted farm bloc and a conservative, had introduced a much more radical measure calling for a possible draft of $50,000,000 on the Federal Treasury. The Capper Bill, it was said, fixed up a modern revised private banking credit system through which it might readily reach out and adequately finance the farmer, if the bankers wanted to do it.

BUT, if the expectation that the livestock loan corporations under Federal charters would spring up throughout the West was widely entertained, it has not been fulfilled.

Although Col. Joseph W. McIntosh was appointed Deputy Comptroller of Currency to supervise the operations of the corporations, so little of his time has been required to deal with these activities that other duties have been assigned to him by the Comptroller.

And not even the first step has been taken toward organizing the million dollar rediscount corporation.

New Books Published

ELEMENTS OF BUSINESS STATISTICS. Robert Riegel, Ph.D. D. Appleton & Company, New York. 549 pages.

Statistics are now one of the accepted tools of business. Not only are they used for the gathering of facts, but statistical method is essential in ordering and interpreting such facts. Dr. Riegel in this book provides a clear introduction to all the operations incidental to the statistical investigation of problems of business and finance.

PUBLIC FINANCE. Harley Leist Lutz, Ph.D. D. Appleton & Company, New York. 671 pages.

"This book," says the publishers' announcement, "bridges the gap between everyday experience of taxpaying and knowledge of the principles that should govern proper procedure in the important activities of government related to the collection and disbursement of public funds. It forms a complete and systematic study of the subject of public finance, taking up, in turn, in its various parts, public expenditures, public revenues except taxation, taxation, public credit, and financial administration and legislation."

THE BANKERS CREDIT MANUAL (Revised Edition). Alexander Wall. The Bobbs-Merrill Company, Indianapolis. 324 pages.

In the four years which have elapsed since the first edition of this book was published, there have been important developments both in theory and practice. The author has followed these carefully and conferred with bank credit men from all over the country as to local and general application. He has also worked out in many new ways and with new precision and detail his ideas of credit ratios and statement-analysis. The book is rich in forms in actual use.

"A Challenge to Member Banks"

Personal Appeal of a Minnesota Banker to the Membership of the Ninth District Federal Reserve Bank to Morally Support and Defend the Federal Reserve System as They Would Defend Any Other Institution in Which They Are Stockholders.

IN a pamphlet addressed to the members of the Federal Reserve Bank in the Ninth District, entitled "A Challenge to Member Banks," the First National Bank of Rushford, Minn., through its cashier, E. H. Habberstad, makes a direct and forcible appeal to the banks in that district to combat criticism of the Federal Reserve System. Though he appeals only to the member banks in his district, his argument applies with equal force to banks in all districts. He says:

"It is my wish to make this message a personal appeal to every member bank in the Ninth Federal Reserve District. It appears to me that the present holds more danger for the welfare of the Federal Reserve System than any time since its establishment. A pernicious and malignant propaganda consisting of misrepresentation and distortion of facts is being cleverly presented to the farmers, laborers and business men of the Northwest. Office seekers openly advocate legislation destructive of fundamental provisions of the Federal Reserve Act.

"The Federal Reserve Banks have tried almost in vain during the past few years to maintain their former position of universal approval in the public mind. That is partly due to the fact that efforts on their part appear prejudiced to the majority of people and are looked upon as an attempt to justify mistakes. Thus far the member banks have shown very little interest in the situation and have done very little to defend the position of the Federal Reserve Banks. It is high time for member banks to determine the truth, if they are not informed, and take a definite stand. They are the ones most directly interested. It is for their welfare and prosperity that the Federal Reserve Banks exist, and they are, in addition, a great benefit to all business interests.

Would You?

"SUCH being the case, they can and must act together to smother the effects of the vicious propaganda being circulated. Would you as a stockholder of a local concern stand idly by and listen without protest to the loose talk about your company that is so commonly heard concerning the Federal Reserve Banks?

"No, indeed. But you are a Federal Reserve stockholder! Then why let go unchallenged the untruthful statements so often heard about the Federal Reserve Banks and the System as a whole?

"The following are a few of the reasons why I am proud that the bank I represent is a member of the Federal Reserve System:

"My bank owns stock in and has a voice in the management of the greatest banking system of the world.

"My checks are collected with greater speed than ever before. If I want exchange I charge the man who cashes an outside check. He gets the service—let him pay the cost.

"I see a great cooperation of banks working for their common good; not only functioning as a great clearing house for checks, but pooling their reserves with the Federal Reserve Banks as a source of assistance for all.

Old Worries Are Gone

"THE old worries of a currency shortage are gone forever. Instead of an inelastic currency system, we are now supplied with money as needed by business, the amount in circulation increasing and decreasing automatically. Figures show that the expansion and contraction of currency in circulation follows the price wave and has nothing whatsoever to do with the making of prices.

"A great reservoir of credit is maintained at all times for the use of member banks. What a relief! There is no longer the necessity of dickering around when funds are needed; no furnishing of excessive collateral; moderate and uniform rates—in fact, nothing to worry about along this line for the good banker. Yes, of course there is a limit—there is to everything—but no fairly conservative banker who puts a reasonable limit on his borrowings was ever refused, or is likely to be refused, rediscount privileges at his Federal Reserve Bank.

"The Federal Reserve System enables a banker to make more money than under the old system. The pooling of reserves by member banks provides a reservoir of credit that makes the carrying of large reserves by member banks unnecessary, and yet with no sacrifice of safety. The careful banker is thereby enabled to keep a far greater portion of his funds working at all times, earning in that way more than enough to offset the loss of interest on his balance with the Federal Reserve Bank. A large reserve carried during, say, eight months of the year to provide funds for a seasonal demand of perhaps a few months is no longer necessary nor considered good banking practice. Rediscounting with the Federal Reserve Bank during seasonal periods is not only good business, but constitutes the proper working of one of the functions provided in the Federal Reserve Act. But even should the non-payment of interest be considered a loss or a partial loss, it would surely seem a small premium to pay for the insurance coverage the Federal Reserve System provides.

Real Banking Reform

"THE demand for banking reform in this country having been successfully met by the Federal Reserve Act, this country is likely to remain free from the autocratic powers of a central bank such as is maintained in most foreign countries. The present system provides the advantages of a central banking institution with branches, but without the disadvantages and the sacrifice of independence and individuality in our banking system.

"It gives one a good feeling to know that the financial control of the country is no longer in the hands of one or two men in Wall Street, or anywhere else. Someone must be trusted with the management of the System. We can't all have a voice in it, and it seems to me that it would have been difficult to devise any fairer system than that providing for the division of the country into districts, with each Federal Reserve Bank therein operated by its own board of directors, each independent of the other, yet guided in a general way by the Federal Reserve Board. Certainly no monopoly of credit or control by a few is possible under this system.

"The banking position of our country has been greatly enhanced in the eyes of the world since the adoption of the Federal Reserve System.

Both Banks and Business

"PERHAPS as important as the System itself are the provisions in it for democratic management and control. The board of directors of the Federal Reserve Banks are composed of men representing both member banks and the business community.

"The Federal Reserve System needs advertising on the part of those who use it. Certain politicians, labor leaders, and others ignorant of the importance of the System to the financial welfare of our country, seem to be doing their best to destroy it. We as members are in a measure to blame for this. It is seldom that one hears a banker actually boost for the Federal Reserve System, but they will often listen to abuse of it without protest. A great many of us have even gone to the extent of blaming the System for certain conditions that it had no legal power to prevent or authority to control. Many bankers who are not even members and know little about it seem to have the habit of criticism. Let's turn about face and show some appreciation of the benefits received and those that may be expected in the future. It is perhaps a needless reminder, but certainly without the Federal Reserve System providing as it did both plenty of money and credit during a time when it was needed so badly, from 1916 to 1922, there would have been a great many more closed banks and bankrupt business concerns in the country.

(*Continued on page* 396)

Does a Condition of Inflation Exist?

Opinions of Observers of Business and Economic Trends Who Have Been Asked if the Business Had Already Become Inflated, or if Such Condition Is Likely to Develop. Question Is Does Credit Correspond to Expanding Business.

IS the country in a condition of inflation, or are we about to develop a condition of inflation?

If inflation exists, or is imminent is the Federal Reserve System now able to control it?

In answer to the foregoing questions Dr. Walter Lichtenstein, executive secretary of the First National Bank of Chicago said:

"Unquestionably all conditions are ripe for inflation. Whether it will occur is, of course, another question. It seems to me that the answer to that depends upon the state of mind of our business men generally, that is whether or not they still remember the lessons taught by the period of 1919-1921. Of course, we have a tremendous gold supply; money rates are extremely low, and there is now a temptation for business men to avail themselves of the possibility of making large profits easily.

"In discussing inflation, it is necessary to have pretty clearly in mind what is meant by inflation. We are having a certain amount of monetary inflation now due largely to the increased supply of gold, but we have had so far very little credit inflation other than that represented by security issues intended to expand fixed assets of industrial concerns. Personally, I believe that while we perhaps have larger plants than are necessary for our immediate purposes, the country will readily grow into this situation and it is easy to exaggerate the seriousness of this expansion. The inflation which would create immediate serious trouble would be heavy borrowings intended to finance speculative undertakings in the broadest sense.

The A. B. A. Resolution

"THE Federal Reserve System might have checked a great deal of the present movement if it had managed its open market operations differently than it has. I have heard the criticism made that the resolutions adopted by the American Bankers Association at its recent convention seemed to imply that there is objection to open market operations of any kind on the part of the Federal Reserve banks. Such, of course, is not the case. In the resolution dealing with the Federal Reserve System, there does appear a statement suggesting that it would be well for the Federal Reserve banks to return to their primary functions of acting merely as banks of issue and rediscount. It would seem to me that operations in the open market are a necessary adjunct to these primary functions. What is objected to in the resolutions, and it seems to me quite rightly, is that the open market operations should have been used during the present movement to increase dangers of inflation rather than to check them."

"The country is not in a condition of inflation at the present time," said J. R. Douglas, assistant vice-president and head of research department of the Security Trust & Savings Bank, Los Angeles. "Although the present extreme activity of the stock market would hardly seem to be commensurate with recent past earnings of the companies or a reasonable anticipation of the degree of future earnings, there is no reason why a slow but steady advance towards prosperity cannot be made by the nation's business without developing a condition of inflation.

Easy Money Leads to Inflation

"PERHAPS the element in the present situation which might be considered most likely to lead to inflation is the extremely easy condition of money. While much of the current abundant supply of capital results from the withholding of commitments and the deferring of new ventures during the period of political unsettlement prior to the election, it is true also that much of the easy money situation results from the supply of gold which has for some time poured into this country under pressure of world conditions. It may be easy for us to suppose that we have more credit than is actual. It is here that the Federal Reserve System, under wise administration, can effectively assist in pointing the way to sound business practices. While past experience has seemed to demonstrate that no regulatory device can prevent the development of inflation when the business community has reached the frame of mind of throwing all caution to the wind, nevertheless the Federal Reserve banks, by prompt advance of the rediscount rate, as soon as such action is justified, can do much by way of warning in checking the growth of unsound conditions.

"Provided that the business of the country keeps its head and is properly assisted by the machinery which has been set up, there does not appear to be any reason why at least moderate prosperity may not lie immediately before us.

"Los Angeles and Southern California are in excellent shape to profit by the progress which may be made by business in the country as a whole. Despite certain difficulties during the summer, which were greatly exaggerated in some quarters, business here has proceeded at about the same levels as during the record-breaking year of 1923. At the same time we have effected a wholesome readjustment in certain directions where the appearance of instability might have otherwise been expected. Industrial development is going rapidly forward, the returns from agriculture have been satisfactory, and the beginning of 1925 is therefore for us the threshhold of sound progress."

Is Expanding Credit Matched by Growth of Business

"THROUGHOUT the last three years an immediate wave of inflation has been repeatedly forecast," said Francis H. Sisson, vice-president Guaranty Trust Company of New York. "But the failure of events to justify these predictions heretofore provides, of course, no positive assurance that out of a new combination of factors an unsound credit situation may not ultimately arise.

"For some years past the lending power of the banks in conjunction with a continuing inflow of gold from abroad has made possible an extraordinary degree of inflation, which might have been realized if other conditions had been equally conducive to such a result. But neither in the balance of industrial factors nor in the prevailing sentiment of business men and bankers was the way prepared for the release of the country's increasing reserves of credit.

"Now—with the restoration in this country of a better balance between the buying power of farmers and that of the industrial and commercial population, definite progress in the settlement of the European reparations problem, and expanding industrial activity here and abroad—it appears that the influences which usually tend to usher in a period of rapidly expanding credit and rising prices are greatly strengthened by the distinct revival of business confidence, and since inflation, like deflation, is not effected automatically or mechanically, our principal safeguard against its train of evils must be found in the foresight which tempers optimism in periods of business expansion and keeps it within the bounds set by actualities.

"The extraordinary inflow of gold from abroad, many have thought, would inevitably result in a drastic inflation of credit and prices. Even if the incoming gold had mainly gone to swell the reserves of the Federal Reserve banks, their extensions of credit might have continued moderate. But the gold was not so utilized. Rather, we have seen for some time past its gradual distribution in the general circulation.

"It is true, of course, that gold held by member or by non-member banks is 'in circulation.' The significant fact, however, is that the additional gold, whether held by these banks or by the general public, has not represented a corresponding net addition to the money in circulation. In effect, the gold was substituted for Federal Reserve notes—the circulation of the latter declining $423,000,000. The year's growth in the combined circulation of all classes of money was only $44,000,000.

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The Condition of Business

Larger Operations at Steel and Textile Mills, Rising Wholesale Prices, and Slightly Firmer Money Conditions Characterized Business in November. Increased Confidence Here and Abroad as Factors in Upswing in Stock Prices and Exchange Rates.

BUSINESS in November was featured by a further increase in production and employment in basic industries, a large volume of trade, rising wholesale prices and slightly firmer money conditions. Stock prices turned sharply upward, following the advance of early summer, and there were substantial advances in many of the principal foreign exchanges.

Production of iron and steel, cotton and woolen textiles, lumber and bituminous coal was substantially larger in October than in September, and, largely as a result, the Federal Reserve Board's index of production in 22 basic industries increased 6 per cent and was 16 per cent above the low point of the summer. The increase in cotton mill activity was particularly marked, and in November some of the more important mills announced preparations for resuming full time operations, which in the woolen industry had already been accomplished at many mills in October. In the iron and steel industry, heavy buying in November was reflected in advances in prices of pig iron and steel, a firmer market for coke, and a further increase in the proportion of furnaces in blast. Unusually heavy marketing of wheat during the fall has been reflected in the large totals of railway carloadings of grain and in greatly increased exports. Cotton exports also have run larger than last year, although prices are lower this year.

The general level of wholesale prices continued to rise in November, according to Professor Fisher's index, which in the last week of the month reached the highest point since February. The slightly firmer conditions apparent in the money markets during the early fall became somewhat more pronounced during November, and open-market rates for commercial paper and bankers' acceptances were approximately ½ of 1 per cent higher than at the summer low levels.

The Spurt in Stocks

THE rise in railway and industrial stock prices which began about the middle of October gained momentum after the election. On many days trading exceeded 2,000,000 shares, and the number of separate issues dealt in was larger than ever before. Average prices of representative stocks rose about 7 points in the first half of the month to the highest levels in recent years. The *New York Times* average, for example, which includes 50 stocks, half rail and half industrial, reached the highest point since 1916, as shown in the accompanying diagram, which indicates also the very large volume of stock trading for the month. Although the abrupt rise in prices came to a pause about Nov. 19, trading continued very active during the rest of the month, and average prices showed very little change.

If the recent rise of about 7 points in the average price of stocks be added to the gains made during the early part of the summer, it is found that a total advance of about 17 points has occurred since the end of May. The table shows the course of the *Times'* averages of stock and bond prices during this period.

	May 31	Oct. 31	Nov. 28
50 stocks	84.3	94.7	101.9
25 rail stocks	62.6	70.3	77.3
25 industrial stocks	106.1	119.0	126.4
40 corporate bonds ..	78.6	81.2	81.9

The forces which operated to advance stock prices in November were somewhat different from those which formed the basis for the rapid rise in stocks, and in bonds as well, between the end of May and the middle of August. The controlling factor behind the earlier advance, both in the average price of stocks and bonds, was to be found in the very abundant supplies of credit scattered throughout the country, particularly in the financial centers. With the member banks in the large cities practically out of debt at the Reserve Banks, any funds which they received, whether through gold imports or otherwise, were added to their reserves, which during this period showed a large increase, despite the reduction in rediscounts. These increased reserves, capable under the laws of supporting nearly ten times their amount in deposits, were used to a large extent in investments in securities and in loans on stocks and bonds.

New Factors

BETWEEN the middle of August and the middle of October, prices in the stock and bond markets generally marked time while credit resources were being used increasingly to finance the fall movement of crops, coal and winter merchandise. The renewed rise in stocks following the middle of October occurred in spite of somewhat firmer money conditions, and had as its basis the recovery in industry and trade from the low levels of the summer, the better earnings statements of the railways, and the improved outlook in the agricultural sections and abroad. To these forces was added in November the greatly stimulating effect of the results of the national election.

The bond market following the election was also active and strong, particularly in the railroad group, and corporation issues generally touched the highest level since 1922, as is evident from the preceding diagram. Here, however, the advance in money rates made itself felt by a moderate reaction in prices. The average of 40 domestic corporation issues at the end of November showed practically no net advance for the month, in contrast to the sharp gains in

(*Continued on page* 412)

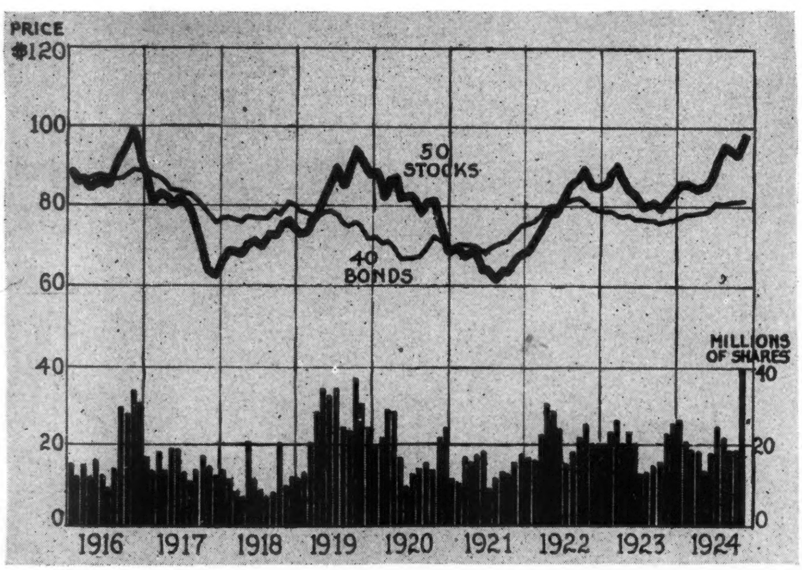

Chart showing the major swing upward in the price of stocks on the Stock Market and the large volume of trading.

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TODAY, there are hundreds of banks that no longer dread those periods when interest must be figured—when that extra load of work must be carried along with the daily routine.

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Referring to these points, Mr. Noel Rush, vice-president of the Lincoln Bank and Trust Company of Louisville, writes:

> "We estimate that with the use of Burroughs Calculators we have reduced the time of figuring interest on savings accounts 50% and the mental effort 75%, with a corresponding reduction in overtime work, worry, and physical impairment. We have found no difficulty in learning the use of the machines, or teaching new employees to use them."

The Second National Bank of Allegheny, Pittsburgh, writes:

> "We are using Burroughs Calculators for figuring interest on our savings accounts, and our past experience has proven that, by the use of your machines, we are able to do this work in less than *half* the time we were compelled to spend on it under the old-fashioned pencil and mental method."

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Name ______________________

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Challenge to Members

(*Continued from page 392*)

"IF the Federal Reserve has made good and has accomplished the objects for which it was created, there is no justification of any criticism of it. The Federal Reserve must be rigidly governed by the law which created it. It cannot go outside of the law to satisfy this group or that, and it would be subject to severe censure if it did.

"I venture to say that no thoughtful banker in America can today deny that as to each of the purposes for which the Federal Reserve was created, it has fully, adeptly and successfully accomplished what it was organized to do.

"That it made a great deal of money due to its abnormal volume of business during the latter half of the great war and immediately thereafter, was natural and inevitable. None of the Federal Reserve Banks are making any money to speak of at this time, and some of them will not make operating expenses in 1924.

"Bankers who criticize the Federal Reserve for the profits that were inevitable during the war crisis should be fair enough to remember that about $135,000,000 of these profits has been turned over to the treasury of the United States, as the law provides, to supplement the gold reserve held against outstanding United States notes, or to be applied to the reduction of the bonded debt of the United States.

Explain It

"BY indirect propaganda it is not difficult in the course of daily conversation with prominent business men, and perhaps more important, prominent farmers, to explain in a brief way what the Federal Reserve System means and has done for the country. Make it a point to bring the matter into your conversation with some person every day or two. That is the most convincing kind of advertising.

"If you live in a small community, discuss the matter with the ministers of the town, the superintendent of schools, the county farm agent and other persons of prominence in the community. See the butter makers at the farmers' creameries and the owners of small country stores, which are gathering places for farmers and clearing houses for local gossip and subjects of common interest. Most bankers in small towns have considerable influence with country newspaper editors, and it would not seem difficult if the editor was approached in the proper way and made acquainted with the facts, to gain his active cooperation.

"By public discussion much can be accomplished. The Federal Reserve agent will be glad to send you any necessary information for your use in giving talks to commercial clubs, community organizations, high schools and women's clubs. Make it a point to do some good in this way; it is easier than it sounds.

Need of Better Information

"TALK with non-member bankers at county and state meetings or individually as you come into contact with them. They get much of the benefit of the Federal Reserve System, though indirectly, and should in all fairness support it. If non-member banks continue in their indifference or opposition, as is the case with many, the day may come when the indirect benefit they received will be curtailed.

"Find out how every candidate for public office stands on the question, and if you can't convince him of the advisability of keeping the System free from politics and of giving time for a fair trial under all conditions, do your best to defeat him. We are probably facing a very critical period for the Federal Reserve System in the matter of legislation affecting it. The System was not intended to be a cure-all for economic ills nor a political football for politicians. It was established to correct certain definite defects in our former banking System and has done that thing in a very successful manner.

"The time is here when business men of the country must defend their institutions and the laws affecting them, even though they are led into politics by doing so. Let those of us who understand the working of the Federal Reserve System, who are part of it and reap the benefits of it, defend it on every occasion in order to bring the time near when every eligible bank in the United States will be a member of it and every citizen will properly appreciate the greatest financial institution of the world, which every member should be proud to represent It CAN be done. Let us see to it that it IS done."

Credit for Cooperatives

(*Continued from page* 380)

insist upon an orderly marketing program, and keep in close contact through frequent examinations with the activities of the associations. Farmers, individually and organized, are only human. They naturally look forward to the morrow which will give them a better price. The best service which the creditor can render the cooperative marketing association is to insist upon a program of marketing which contemplates the sale of all the commodities at a fair price before the new crop deliveries come. Speculative holding is never to be tolerated, as it is the rock upon which the cooperative association will inevitably wreck itself if the creditors do not insist upon a full performance of the whole spirit of the loan contract which provides for an orderly marketing program.

The banker will find that not all of the cooperative marketing associations are as soundly organized and managed as he would wish. Many have voiced the opinion that the associations lead a hand-to-mouth existence, rich in assets during the period of crop deliveries, but poor when the crops are sold. Unquestionably, organizations with more regard for their permanent existence are desirable. The building of capital reserve and surplus and more attention to the development of broader markets, together with the campaigns for increased membership, appeal to me as adding to the stability of these organizations. But these are not grounds for rejection of the business. They merely suggest broader margins and closer supervision. The banker's duty is greater than that of casual investigation and flat rejection of the association which does not fully satisfy his ideas of a sound business set-up. He should counsel and aid in the correction of the defects in the organization.

The magnitude of the undertaking, the diversity of the products which should be marketed cooperatively, the problems of organization, efficient management, adjusting of production to consumption, fairly defining and effectively enforcing orderly marketing, the development of broader home and foreign markets, and the framing of financial policies well adapted to the various types of cooperative marketing associations combine to make this the farmer's and banker's most interesting and difficult, but withal most hopeful and promising, undertaking in this generation. They challenge the best thought, the highest purposes and the most unselfish cooperation of the banking interests for the common good. We can and we will build an enduring system for the benefit of every American agricultural producer, if the bankers of this country lend their wholehearted support to this movement.

Convention Calendar

Date	State Association	Place
May 19-20	Missouri	——
May 20-23	California	Santa Barbara
	Other Associations	
Dec. 14 1924	Porto Rico	Coamo Springs Coamo

Inflation?

(*Continued from page* 393)

"The most tangible evidence of excessive expansion of credit or currency, when it exists, is found in the course of commodity prices. Not much anxiety can be aroused concerning inflation so long as prices on the average remain stable or decline.

"The three leading indexes agree in reflecting the rise in average prices since midsummer. The recent advance in the combined average for all commodities has been due to the large increases in prices of farm products. As a whole other prices have changed but slightly. Accordingly, the major price movements since June have reflected mainly a readjustment between the values of agricultural and industrial products, bringing them more nearly into their customary relationship. There will be few to lament this sort of change in the price structure.

"There are those who, while recognizing no inflation of commodity prices, are convinced that the abundance and cheapness of loanable funds have nevertheless been instrumental in raising security values as a whole to levels not warranted by present or prospective conditions in industry and trade. The extent to which current security prices may be thus inflated will be tested, of course, by the future trend of profits.

"It is unfortunate that so seldom in the discussion of banking and currency is there any attempt to distinguish between the variable consequences of expansion. But surely it must be of primary concern to the business man to know whether in a given instance the expanding credit is matched by a growth of business, with prices relatively stable, or evidences a too rapid movement reflected in general increases in the price level. Present tendencies in banking, accordingly, will have to be judged by their results, not by the names we apply to the recorded changes."

Its Development Doubtful

"AT the present time the country is not experiencing inflation," says the Bank of Italy, San Francisco, Calif. "It is true that several weeks ago there was some inclination to discount the effects of the election, and had the result been different in character, a condition resembling that of inflation would have existed in a great many places.

"What would have been a serious situation less than a generation ago, is relatively normal on the basis of present standards. Our methods of doing business, the volume of credit required for average transactions, and the international trade relationships, all tend to create new factors of comparison. Inflation—as it is understood in the effects produced—does not exist today, and it is doubtful if it will develop. The fear that it might come is one of the best safeguards against it.

"Possibly the fear of inflation that was experienced last year—or the thought that the anticipated period was only deferred—gives rise to the present uncertainty. However, irrespective of the source from which the impression is derived, there is no doubt that a great many people are sincerely disturbed.

"From the experience acquired during past occasions of aggravated economic conditions, the Federal Reserve System is adequately equipped to cope with an era of inflation. The excellent functioning of the system in times of stress has been one of the most impressive features of our financial development."

An Illusion of Cheap Money

IN an address in Chicago on Nov. 18 last, Benjamin M. Anderson, Jr., economist of the Chase National Bank, New York City, made the following pertinent statement:

Banks have been prudent in lending and business men have been prudent in the giving and taking of credits. But there are three financial factors which ought to be altered if we wish to prolong the present promising upward industrial move, and consolidate the progress made. These financial factors are: (1) unduly high surtaxes; (2) unduly high tariff rates; and (3) unduly low Federal Reserve Bank rediscount rates, accompanied by excessive Federal Reserve Bank holdings of securities and paper bought in the open market.

"Present Federal Reserve Bank policy is giving us the illusion of abundant and cheap capital when what we really have is an abundance of short-time money market funds, due primarily to the great influx of gold followed by the injection of a large amount of unneeded Federal Reserve Bank credit into the money market. As commercial borrowing has not sufficed to make use of all this surplus money, a very substantial part of it has gone into the investment market, and bonds have risen very sharply in price. With a strong revival of commerce and industry, money rates and interest rates may be expected to rise sharply, and even violently, from present levels unless there should be a very great further addition to Federal Reserve Bank expansion, in which case an exceedingly unhealthy financial situation would be generated. We had best get rid of the artificial money market now, while commercial borrowing is still moderate, and before merchants and manufacturers have made large plans based on unduly cheap money. Commerce and industry will then know where they stand and will not face a rude disillusionment later."

Trust Company Resources

THE annual edition of "Trust Companies of the United States," published by the United States Mortgage & Trust Company of New York, shows that the country's trust company resources for the year ending June 30, 1924, were $16,025,502,000, a gain of $1,584,042,000, or nearly 11 per cent over 1923. Deposits for the same period increased from $11,828,983,000 to $13,289,148,000. The number of companies reporting was 2562 against 2478.

Dawes To Retire As Comptroller of Currency

HENRY M. DAWES, Comptroller of Currency, has tendered informally his resignation to President Coolidge. It has been announced that he will become president of the Pure Oil Company, a large independent oil company.

Mr. Dawes is the second member of his family to have served as Comptroller of the Currency, as his brother, Charles G. Dawes, now Vice-President of the United States, served in this capacity under McKinley. The retiring Comptroller was appointed by President Harding. He was most active in behalf of the McFadden bill and has urged action by Congress to place the national bank more on a parity with the State-chartered institutions.

During his administration Comptroller Dawes, while opposed to State-wide branch banking, authorized a number of national banks to open up "additional offices" in large cities in order to meet the growing competition of State banks. He took this action after the Attorney General held that it was permissible. He endeavored to put a new touch in bank examinations and reorganized the force to keep the Comptroller's office in Washington more intimately acquainted with local conditions.

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Compiled by MARTHA L. FREY
Librarian, American Bankers Association

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When $25 Equals Only 15c.

By Minna Feibleman

"BUT Banking," began the old Banker, "is different." The young advertising woman smiled.

"True. It is. And just because it is different is why it should be advertised differently. Why do you smile and say 'How do you do'? and 'What can we do for you?' to Mrs. Montmorency when she comes into the bank?"

"What a foolish question! Why I just want to be pleasant and to show her that we're friendly——"

"——So that she'll keep on depositing her money here instead of keeping it in the pink lustre tea-pot on the third shelf of of the china-closet?"

"Why, yes. I suppose so. At least——"

"And when Miss Smith, the stenographer from the stationer's shop across the street came in just now, you beamed upon her instead of merely smiling pleasantly, and you talked longer, and your voice was a little more jovial than when you spoke to Mrs. Montmorency."

"They're different sorts of clients, and we have to talk to them differently. We like to handle Mrs. Montmorency's account, of course, but what we really want to get in the habit of handling, is an account like Miss Smith's. These business girls——"

"When you get the chance, you like to open such accounts?"

"When we get the chance."

"Why don't you get the chance?"

"Because we can't get at the girls to persuade them."

"There are lists——"

"Yes, but it takes so long. If we could talk——"

"If I could talk to those girls for you," began the advertising woman, but the banker interrupted her:

"My dear young lady, how could you alone talk to several thousand girls?"

"If you were to open a letter beginning 'When $25 equals only 15 cents,' would you be curious enough to read it?"

"Of course, but—"

"Then please try this," the young woman drew from her handbag a folded paper, "and will you remember that while you read it you are a business girl—a stenographer or a salesgirl, earning $25 or less a week?"

The Banker began to read aloud:

"When $25 Equals Only 15c."

—Then a lone dime in your purse rubs wistfully against a Buffalo nickel, and murmurs—"We had $24.85 for company when we started, but look at us now! What with shoes, and gloves, and six lunches, and an even dozen carfares, and a movie, I feel sort o' lonesome now!"

Maybe you didn't really need that extra pair of silk stockings (the pair that developed a runner last Sunday) . . . but you just happened to have the right amount along with you.

Suppose that instead of jumbling the bills and change in your purse until it was almost all gone by Saturday, you had deposited a couple of dollars in the bank during the first noon-hour after pay-day.

You'd still have had your six lunches, and your dozen carfares, and your shoes, and your gloves, and perhaps your movie, too. But there'd be the satisfying knowledge of one tiny step toward rainy-day-safety in the future—perhaps even the promise of one substantial brick in the house you've dreamed of.

And it's so easy to start the to-the-bank habit at the Main Street bank!

"That's not so bad," acknowledged Mr. Banker. "As a matter of fact, I don't mind confessing that I think it's great!"

"Yes," agreed the young woman, "and in addition, that's advertising."

Ideal Currency

(*Continued from page* 385)

Reserve banks, horeover, in which it would not be possible to provide sufficient currency for any emergency that might arise."

If the national bank notes and the greenbacks were retired, there would be removed more than one billion dollars in fixed and rigid currency and the other paper bills now widely used would be issued in greater diffusion to replace the historic counters of exchange.

Mr. Dewey has indicated that an ideal currency for the United States might be composed of a combination of silver certificates, Federal Reserve notes and gold certificates.

There would be the silver certificates for the smaller denominations and the gold certificates for the bills of larger denominations. With the Federal Reserve notes working with both, the nation would have a combination that would take care of the domestic production of silver, provide for the protection of our gold position by permitting the paying of gold into circulation and a circulating medium immediately responsive to the demands of business.

The Keynote

(*Continued from page* 378)

3. Our task of keeping the pound sterling at par with the dollar is made more difficult if America, while continuing to sell her essential raw materials to Europe, puts increasing impediments in the way of foreign countries selling to United States. If this policy is continued, sooner or later it means that the world must buy less from America. But while that result is being brought about we shall suffer from serious trade difficulties.

4. The payment of interest on the British debt to America naturally puts an added burden upon the exchange. The burden is one which, I think, we can bear, but Great Britain is, I believe, at present the only country in the world, other than America, which could pay such a debt without completely destroying its exchange. We can do this because we still have a considerable surplus available for foreign investments, which the year before reached $750,000,000. If we pay America $150,000,000, it only means in the long run that our foreign investments must be less by this amount than they otherwise would be.

America Can Carry the Good Work Farther

THE case is quite different with Italy and France. At present neither of these countries could pay Great Britain or America, and if either creditor endeavored to enforce the debt it would once more imperil the exchange situation. The United States has done a great work in helping reconstruction with the Dawes Report; it can, I think, carry the good work a stage farther and by means of a sympathetic understanding of our difficulties make it easier for Great Britain to get back to the gold standard during the coming winter, and, finally, in cooperation with Great Britain be prepared to take a very liberal attitude toward the debts owed to us both by France and Italy.

On these lines the United States of America can still make another contribution to world reconstruction and thus do something which will not merely be of economic benefit to herself, but will be in accordance with the ideal which I imagine everyone would indorse, the ideal not of putting as wide a gap between the United States and the rest of the world but of assisting other nations and races as far as possible to reach the degree of prosperity which you yourselves have been privileged to attain.

Trust Conference in Chicago

UNDER the auspices of the Trust Departments Committee of the National Bank Division, American Bankers Association, a conference on trust work will be held in Chicago Jan. 20 and 21, 1925. The proposed meeting will be the second one of its kind conducted by the National Bank Division. The first one, which was restricted geographically, was held in Kansas City last winter. The enthusiasm displayed there found expression in a resolution which called for a similar though larger conference to be held during the winter.

All banks interested in trust work, whether they be national banks, trust companies or state banks with fiduciary powers, are urged to send representatives who, it is hoped, will take advantage of that opportunity to ask questions, to give their own experiences and to enter generally into the discussions. The listed speakers will be from national banks and trust companies also, the desire being to make the conference one of benefit to all banks alike.

The headquarters will be in the Hotel LaSalle, where meeting rooms have been provided for the sessions. Delegates wishing accommodations at the headquarters hotel may secure them by applying directly to the hotel, and the advisability of making reservations early is suggested.

Would Abolish Passports

RECOMMENDATIONS that the United States Government enter into agreements with foreign governments to abolish passport and visa requirements have been made by the Commerce and Marine Commission of the American Bankers Association. The Commission, of which Fred I. Kent is chairman, declares that "high fees for passports and visas are a burden upon international travel which is so necessary to foreign commerce, and the formalities incident to visas and to police control of passports, which were appropriate in time of war, are now an interference with commerce."

The American Government is urged to reduce its fees for passports and visas "to a reasonable charge for the service it performs" and to enter as promptly as possible into reciprocal agreements with foreign governments for the complete discontinuance of visa and passport requirements as conditions warrant.

The "Outsider"

(*Continued from page* 382)

days—a record not surpassed during the present major bull swing. But what a contrast! The largest number of individual stocks to change hands on that memorable April 30, when 3,281,226 shares were turned over, was just 166, and 40 per cent of the trading was in five stocks. There was trading in 555 stocks during one day of the present boom—and there was no favorite to compare with the five stocks figuring prominently in the collapse of Harriman's Northern Pacific corner.

Little wonder that the ticker has been unable to keep pace with the gait that the traders have struck, although officials of the Exchange declare that the ticker has acquitted itself nobly. The ticker was 29 minutes behind at the close of the first hectic Saturday, and frequently during spurts of trading it has fallen from 10 to 20 minutes in the wake. However, generally it has kept up pretty well.

The events of the past few weeks have convinced the members that the ticker system's maximum capacity is about 2,250,000 shares in a five-hour day. The human element does not enter into the situation—it is merely a question of machine capacity. Already experts are studying how the ticker system, an American invention, can be sped up and perfected to the extent that the record of every sale can be broadcasted over the network of wires almost chronologically with the close of the transaction.

There is hope, for the ticker has undergone a steady improvement since E. A. Calahan, way back in 1869, decreed the passing of the pad shovers, who raced breathlessly from the Exchange to the brokers' offices in the financial district, by inventing the machine. Until a few years ago quotations were telegraphed from four stations on the floor to the operating room, where they were written down by four receiving telegraphers, who made out memoranda and handed them to the keyboard operator. The electrical device that directed and controlled the printing of the quotations on the tape was in front of him, and his fingers deftly punched on the keyboard the buttons that spelled the abbreviated news on the thin tape. The keyboard operator would grab a bunch of quotations from one operator and then the other. This system was too slow and, then again, it did not insure the appearance of quotations on the tape in chronological order.

So the Exchange set about to perfect a system that would eliminate all waste motion. It hit upon the idea of reducing the three intermediate handlings—to one by installing a keyboard, operated on the floor, that would connect direct with the tape. Four of these machines, with keyboards that look like the keyboard of a typewriter, were put on the floor. As the operator selected the appropriate security symbols and prices they were automatically printed on the tape by electricity, without being directed by another hand. The problem of synchronizing the four stations to prevent the bunching of quotations was solved by introducing an electric rotator that would select quotations from each of the four stations in the order of their sequence.

270 Characters a Minute

THE new system gave a speed of 270 characters a minute, as compared with from 225 to 230 under the old order. Now it is planned to increase this maximum to five characters a second by grouping the most widely used symbols together and cutting down the number of characters devoted to identify any one individual stock.

The quotations gathered on the floor are distributed by tickers in New York below Chambers Street by the New York Quotation Company, which is controlled by the Exchange. One of these tickers runs into the main office of the Western Union, where an operator copies off the figures on the tape and transmits them over the Western Union tickers to the great outside world. To prevent wrongful use of the quotations, the Exchange must approve all applications for this service. Thus, if the Exchange itself improves the ticker service, the whole financial world will profit from the improvement.

Perhaps the one question that has been uppermost in the minds of financiers and traders the nation over is: "How long will the boom last?"

Those who turn to the past for a comparison point to the boom that set in after McKinley overwhelmed Bryan in 1900. They point out that there are a great many parallels in the two periods. Radicalism, in the guise of Bryan and free silver in 1900 and LaFollette and his policies in 1924, was crushed. Wars—the Spanish-American and the World War—preceded the election. The

fateful day came at a time of abundant crops and good prices for farm products. The country was in a strong gold position; in 1900 Morgan floated the first foreign loan in the American market; in 1924 the United States subscribed for $100,000,000 of the German reconstruction loan. The railroads in 1900 expected a revival in trade with gross earnings very good. The gross earnings of the carriers before the recent election showed that the severity of the depression was passing. Before the elections there were British general elections; there were uprisings in China; foreign nations were looking to the United States for loans. The industries were regarded to be in good condition to stand whatever might come. Business had small inventories on hand, and production declined in volume before the elections. In October of each period it was generally felt that both McKinley and Coolidge would be elected—the real question being by how much. The general run of statistical advice, in both years, was that if the favorite was elected no great advance in stocks would take place from the present levels. There were rumors of great railroad consolidations in both times.

The McKinley Boom

AFTER President McKinley's re-election a wild outburst of speculation struck the Stock Exchange. The strength noted in October continued throughout November, prices advancing during the rest of the month. Slight recessions, attributed to enormous realizing sales, were recorded during the close of the month. The railroads and a large number of industrial properties showed advances of 10 to 20 points. Speculation on the Exchange gained greater headway during December, many further gains of from 10 to 20 points being registered. Stock sales continued to increase in volume. Rumors of various combinations for harmonizing affairs in various parts of the country spurred the speculators on. Speculation in January attained extraordinary proportions, all other records being eclipsed as the recorded transactions passed the 2,000,000-shares-a-day mark. The purchase of the Central of New Jersey Railroad by J. P. Morgan, coming at a time of rumored rail combinations, caused a rise in prices with sharp reactions later. The tone of the market grew stronger toward the end of the month, however.

Talk of a great combination of steel and iron interests kept the market aflutter in February. When it appeared early in the month that all obstacles in the way of the projected merger would be overcome, the market was buoyant and active. Later the market halted awaiting details and showed weakness. Then came the organization of the United States Steel Corporation—America's first $100,000,000 corporation. The month was marked by wide and erratic fluctuations, although some stocks followed an independent course. The great success attending this combination gave an added impulse to the upward movement of stocks, appreciable advances being recorded all through the list. The speculative atmosphere was surcharged with rumors of impending deals and new combinations—especially in the rails.

In April of that year speculation became rampant. New records were marked up again and again. Sales ran in excess of 41,000,000 shares, eclipsing the former monthly record by more than 11,000,000 shares. Many of the railroad shares shot up from 10 to 30 points. The daily papers recited how the fever of speculation was spreading to all ranks of society; people of moderate means crowded the smaller brokers' offices and bucket shops to gamble that the stocks would continue their dizzy advances; the country seemed to be possessed with the mania for speculation.

May started off with a wave of unexampled activity. During the first few days stocks kept up their steady advances, but the money market grew sensitive, and on the 9th the long continued upward rise culminated in the worst collapse of prices that the financial world had witnessed since the panic of 1873.

The Big Crash

THE crash came through the contest between the Hill and Harriman interests for the control of the Northern Pacific, which resulted in each group buying up more stock than actually existed. When the shorts started scampering to cover, a panic broke loose and stocks started downward.

On Monday the 6th an order for 200,000 shares was recorded on the ticker. The price advanced from 114 to 133, and on the next day it continued upward to 149¾. On Wednesday it reached 180. The shortage of the stock was so acute that 80 per cent had to be paid for the use of the stock overnight. On the day of the panic—May 9th—300 per cent was demanded for the use of the stock for one day. The price jumped to 1000 on cash sales and to 700 in the regular way. High money rates and the corner played havoc with the market. Standard stocks declined as much as 60 points during the day.

Stepping into the breach, a syndicate of banks and brokers offered $20,000,000 at the market rate—which had been bid up to 60 per cent. J. P. Morgan & Co. loaned $6,000,000 at 6 per cent. The bankers for the opposing Hill and Harriman interests agreed not to call upon the shorts for delivery on that day. And when a settlement price of $150 a share was fixed for the Northern Pacific stock, the panic subsided and the market became quiet and normal.

Perhaps the events of the next few months will uphold Henry Ford's original observation that "History is bunk."

There are some who contend that there is no comparison to the present situation in all of America's financial history. It is pointed out that, whereas former big markets have been the cumulative result of the development of some disturbing factor that has brought about a nation-wide liquidation of securities and produced a heavy pressure to sell, the present market is on the upswing and the pressure is to buy instead.

But certainly one of the most notable features of the present boom is the most widespread participation of thousands of investors.

R. F. Kopperschmidt, Vice-President of the Reliance State Bank, has resigned that position, and will become associated with the Olson Rug Company as Vice-President and Director.

J. W. Goodin, formerly Secretary and Treasurer of the Central Bank & Trust Company, Parkersburg, W. Va., has been elected Auditor of the First National Bank and Braddock Trust Company of Braddock, Pa.

Tax Appeals

(*Continued from page* 389)

matter of the appeal of the Everett Knitting Mills that it did not have such jurisdiction. The question also arose very early as to the computation of the sixty-day period within which an appeal might be taken. The statute provides that an appeal must be taken within sixty days from the mailing by the Commissioner of the so-called deficiency letter. The Board held in its opinion in the matter of the appeal of Sam Satovsky, that an appeal could not be considered as received until filed by the Board, and that the sixty-day period included Sundays and holidays. In the matter of the appeal of the Bruin Coal Company the Board decided that it had jurisdiction in a case involving a deficiency for a certain year even though that deficiency may be occasioned by an adjustment of income for a prior year. Perhaps one of the most interesting opinions of the Board on the extent of its jurisdiction is that in the matter of the appeal of the Hotel de France Company. The Board in that case held that where it appears from the record that the deficiency determined by the Commissioner is incorrect, the Board will, where possible, find the correct deficiency, whether greater or less. In that particular case the Board found a greater deficiency than that found by the Commissioner.

Contribution to a Church

AN opinion of interest as showing the attitude of the Board is that in the matter of the appeal of the Poinsett Mills. In that case the Board held that a contribution made by a corporation to a church maintained in its mill village, producing direct benefit to the corporation, is deductible as an ordinary and necessary business expense.

It is interesting to note that in a considerable number of cases the taxpayer and the Commissioner, after the petition was filed with the Board, have been able to come to a satisfactory agreement as to the tax liability. In a few cases the Commissioner has wholly conceded the position of the taxpayer. In other cases the Commissioner has conceded some of the points involved when confronted with evidence which the taxpayer was ready to present to the Board. This is an extremely hopeful sign. It shows a desire on the part of both parties concerned to assume a reasonable attitude. Situations of this kind are sometimes brought about by reason of the failure of taxpayers to present to the Bureau all the evidence in their possession, through inadvertence or otherwise, and sometimes by a recognition on the part of the Commissioner that the position taken in the Bureau may have been wrong.

The Board has before it at present, although the questions have not yet been decided, some of the most far-reaching questions. Its jurisdiction in cases involving claims in abatement has been questioned by the Commissioner. That question has been argued and is now before the Board. The Commissioner has also questioned the jurisdiction of the Board in so-called special assessment cases (cases where the excess profits tax rate is fixed by the use of comparatives), and he has also questioned the jurisdiction of the Board in cases where there is a charge of fraud in the Bureau. The Board also has before it the question as to whether a taxpayer is entitled to depreciation upon patents where such depreciation was not claimed upon the original return for the particular year involved. It also has before it a number of cases involving the question of affiliation, the decision of which will involve the proper interpretation of the section of the statute dealing with affiliation. These questions will probably be decided by the Board in a comparatively short time. The questions which have been, and are now, before the Board clearly indicate that practically every question which has heretofore arisen in the Bureau will sooner or later come before it.

Disposed of 110 Cases

IN approximately two weeks after its organization the Board had promulgated its rules of practice. It was unable to actually consider any cases until a certain time had elapsed in which cases could accumulate and come to issue. A great many difficulties necessarily grew out of the problems of organization, but in spite of the fact that it had no precedents, it has succeeded in that time in becoming a very healthy member of the family of independent organizations maintained by the government.

It has heard approximately 190 cases, and disposed of 110. Its machinery is in full operation, and from 40 to 60 cases are now set down for hearing each week. Approximately as many cases are being heard each week as come to issue. About 50 opinions have been written and published. While this may not be sufficient experience to determine whether or not the existence of the Board is justified, it has at least given some indication of the useful work it may perform. The Board still has before it, and will continue to have before it for a considerable period, many important questions. It is treading on new ground, and before it can be determined whether the purposes behind its creation have been accomplished many problems must be disposed of. Some of its decisions may be criticized, but during the early period of its existence it is hoped a tolerant attitude will be taken and its mistakes, if any, will be considered in the light of the seriousness of the problems before it.

It must not be expected that the Board can in itself reduce or remove the complexities that are inseparable from the administration of any tax law similar to the laws which have been enacted since the adoption of the 16th Amendment. It will afford an independent tribunal for the consideration of questions which grow out of a valid difference of opinion as to the correctness of the findings of the Bureau of Internal Revenue in any given case, and to that degree it will assist in the equitable and just collection of the tax and insure that the rights of the taxpayer are duly protected and observed.

Controlling Silver Prices

NOTING the American complaint that "silver prices are dominated in London," Samuel Montagu & Co. of London, large dealers in silver bullion, recently stated in their letter that "there is no earthly way that this can be changed arbitrarily.

"Fifty years or two or three generations from now it might be," it commented. "At present the price of silver in London is governed solely by the demand for exchange to settle oriental trade balances. These oriental drafts are drawn on London by the British banks of the East. These drafts are matched against the silver supplies daily in London and the daily quotations of silver determined thereby.

"Until the commerce of the Orient, now handled by British houses through London banks, is transferred to American business and handled through the banks of this country, there is no possible way that the control of the price of silver can be wrenched from the British. Moreover, there is in India a stock of silver estimated to be not less than 375,000,000 ounces and, in China, a stock of not less than 75,000,000 ounces. The banks of Hongkong and Shanghai are in an impregnable position, as is also the Bank of India. Against these enormous reserves of silver what could an American export association hope to do with its total annual production of 60,000,000 or 70,000,000 ounces?

Thrift Congress

(Continued from page 388)

sums, as much as £200,000 being offered by a single concern. This resulted in a restoration of the limit, not on total deposits, which are still unrestricted, but on the amount which may be put in during any one year, which now cannot exceed, as I recall it, £500.

Limiting Use of Word "Savings"

THE question of limiting the use of the term "savings" to institutions operated without an opportunity for profit to their promoters or managers came up, in this way, under the head of Item I. There seemed to be a general assent to such a limitation as essentially just in localities where such institutions exist, in order to prevent banks operated solely for the profit of their stockholders from obtaining money from the public under the false pretense of being something which they are not. Mr. Irwin, the vice-president of the First Trust and Savings Bank of San Diego, Cal., addressed the Congress while this matter was being considered, but did not debate it. Many of the delegates seemed to favor limiting the use of "pass-books" and even of the word "pass-book" to institutions of a mutual or governmental character, and it was quite apparent that in Italy, at least, the competition of small "credit banks" and other financial institutions operated for profit was making itself felt.

The number of delegates and the short time during which the Congress was in session made it necessary to impose a strict limit on debate. No one, except those who had been asked to prepare formal papers, could speak for more than ten minutes, and, while this facilitated the work of the Congress, it prevented the careful technical discussion of debatable points which one would have found instructive. As a matter of fact, too much time was occupied by eloquent dissertations on general matters about which no difference of opinion was possible, and too little by the interchange of differing views on controvertible points. Probably this result was inevitable, but it was, nevertheless, unfortunate, it seems to me, and should, if possible, be minimized in future Congresses.

The most carefully prepared and probably the most instructive address presented to the Congress was that of Professor Ravizza, the publicity expert of the Savings Bank of Lombardy, on "Propaganda in Favor of Thrift." In it Professor Ravizza covers the whole field of the effort which he believes is the duty of savings institutions to stimulate the habit of systematic economy. He separates "Publicity" as only one phase of "Propaganda" and discusses the latter in the broadest sense as including the personnel of the management, the character and behavior of the operating force, the rapidity of the service, the interest rate and, above all, the spirit of public service which ought to animate those engaged. Classing these things as "passive" propaganda, he includes all forms of publicity, school savings banks, industrial savings, personal solicitation and "banking by mail," as

among the manifestations of "active" propaganda. Included in his printed paper are numerous illustrations of publicity used in various parts of the world, many taken from American savings bank practice. Certainly it was most inspiring to find the most progressive ideas of American savings bankers received and approved in a distant land.

Diversion for the Delegates

ON the third day of the session the delegates were tendered an excursion to beautiful Lago Maggiore. Leaving at nine in the morning in automobiles, they traversed the new motor speedway for about thirty miles to Varesa. The Italian drivers are daring and the perfect concrete road tempting, so that the speed maintained was hardly consistent with the conservative character of the guests. Often the speed meters showed more than 100 to the hour but as this signified kilometers and not miles, it seemed to those unaccustomed to a metric reckoning a little worse than it was. Nevertheless, the thirty miles was covered in forty-five minutes, and the journey continued in a special train. As it happened, this day was the anniversary of the "March on Rome" and was being celebrated as a Fascisti holiday. Everywhere there were waving flags and bands, flowers and garlands and groups of soldiers and Fascisti. It had been announced that Mussolini was to accompany the bankers on this trip, and the hope of seeing him drew crowds to the railway stations. On the short walk from the train to the steamer the delegates passed between long lines of saluting soldiers and citizens and would have felt honored indeed if they had not realized that the attention was not for them.

Crossing the lake in a gaily decorated steamer and drinking in the wonderful beauty of a scene with blue water, marble palaces and picturesque villas in the foreground and the snow-capped mountains in the distance, the delegates landed at Stressa and enjoyed a delightful luncheon enlivened by addresses by the mayor of the city and the Marquis de Capitani.

Another boat trip ended at the Island of La Bella, where the famous palace and gardens of the Prince Borromeo were thrown open to the visitors. Here also Mussolini joined the excursion and passed between the lines of delegates in the garden, giving each a chance to see this remarkable man at close range.

From La Bella the Congress, escorted by circling seaplanes, which looped the loop overhead, and by an Italian torpedo boat, which fired a salute (for Mussolini), returned to the train and to Milan, carrying with it an impression of waiting and cheering crowds, waving bunting and gleaming torches. If Mussolini is losing his grip on Italy—and one sometimes met people who thought he was—the delegates to the Congress saw no visible signs of it on the anniversary of the "March to Rome."

Protection of Emigrant's Savings

THE third subject considered was the protection of the emigrant's savings by the issue of an international pass-book interchangeable among the savings banks of different countries. The desirability of affording emigrants an inexpensive means of transferring their savings and, at the same time, of protecting them from exploitation and downright theft was admitted on all sides, and the Italian delegates, especially, were eager to discover some way by which the earnings, as they accumulate in a foreign land, might be speedily sent home, yet the difficulties, especially those resulting from the variations in the rate of exchange, were seen to be enormous. Dr. Hopker of Berlin, member of the Prussian Statistical Bureau, read a carefully prepared paper on this subject in which he went into practical details, even presenting forms of accounting and pass-books which, in his opinion, would obviate many objections to the proposition. In his opinion the dollar, so long as it remains the standard of exchange, ought to be accepted as the denomination in which deposits and withdrawals on international pass-books should be figured. Other speakers pointed out the existence of a reciprocal arrangement between France and Belgium by which pass-book deposits might be transferred from one to another of the postal savings banks of those countries, and that since 1906 a similar understanding in regard to deposits in some of the ordinary savings banks had existed between France and Italy. The Congress, while approving in principle the idea of an international book, felt that the obstacles were too great to permit immediate action and, therefore, referred the matter to the international body, to be created for the purpose of studying and coordinating savings bank activities.

Under the fourth heading, as might be expected, diverse views as to the extension of the scope of savings bank activities were expressed. One of the most thoughtful papers presented to the convention was read on this subject by Senator Maffeo Pantaleoni, professor of economics in the University of Rome. He took the ground that the scope of a large institution, like the Savings Bank of Lombardy, with its two billions three hundred millions of lira, ought to be and necessarily is very different from that of the small provincial bank. The latter might well depend more largely on real estate loans and municipal bonds as investments, because the intimate knowledge of its officials of social and business conditions in its own town or neighborhood made such a course safe, while the larger institution ought, while keeping safety in mind as a prime requisite, to take on more of the functions of a regular bank and buy high grade stocks which can be readily liquidated in the markets of the world, and even foreign securities so as to be always in a position to liquidate a large amount of its holdings without regard to domestic financial conditions.

Enormous Losses

SENATOR PANTALEONI referred in this connection, and he was the only delegate who did refer to it, to the enormous losses of savings bank depositors through the depreciation of the currency due to inflation resulting from the war. While the banks have remained solvent, and the depositor has to his credit the same nominal amount which he saved and deposited before 1914, he finds that its purchasing power

and the purchasing power of the interest which he receives has shrunk to one-fifth of what it was. This experience could hardly be thought of as encouragement to further thrift, and could have been obviated in part, at least, by sufficient purchases of carefully selected stocks, which advanced in price *pro tanto* with the fall in the value of money.

Much which Sig. Pantaleoni said is obviously debatable and, perhaps, would have led to the most informative part of the conference, if it had not been for a tragic event which interrupted this session and threw a deep shadow over all the subsequent proceedings. After completing the address to which reference has been made, Senator Pantaleoni stepped into the anteroom for a few moments and continued the discussion with some of the delegates who were standing there. On turning to reenter the assembly room, he fell to the floor and died before he could receive any relief. Naturally all business was temporarily suspended, and the receptions which were to be tendered the delegates by the City of Milan and by the Italian Bankers Association, as well as the final banquet, were abandoned. On the following day Senator Pantaleoni's funeral took place at the Savings Bank of Lombardy and was attended by all the members of the Congress.

On the remaining subject, namely the creation of an international savings bank organization of some kind, there was unanimous consent, though opinions differed widely as to the extent of its functions. M. Du Roure, president of the General Conference and of the High Commission of the savings banks of France, advocated a central office under the control of an international committee which would meet three or four times a year and arrange for the collection of all laws, decrees, reports, debates and other official documents referring to savings banks and furnish information on demand; it would publish an international review; and, finally, it would organize international congresses, which could be held in different countries every four or five years. All the savings banks of the world would be invited to contribute to the upkeep of this central bureau, according to their resources, and to send all documents published by them.

The above, which presents the minimum and most practical view as to the powers and duty of the central body, may be contrasted with the elaborate program suggested by Mr. Csejkovits of Budapest, which contains twelve distinct functions of extraordinary breadth and importance. He would charge this commission with duties which range from the collection of statistics and the organization of propaganda to the establishment of an international money standard, the protection of private capital and the diminution of class hatred.

In conclusion, it may be said that the Congress, though it has only made a beginning, has made a most energetic and successful beginning in demonstrating the essential solidarity of savings bank interests throughout the world, and if it be followed up in the same spirit and with an energy such as has characterized its promotion, it may well lead not only to closer relations between the savings banks of various countries, but may help to bring about better harmony and understanding between the countries themselves. If this should happen, those who were fortunate enough to attend this Congress may well feel, as was said by Senor Darcy, the vice-president of the Savings Bank of Rio de Janeiro, that "they were the first volunteers in a great army being mobilized to fight for the peace and prosperity of the world."

"The first justification for a foreign loan," says Barclays Bank of London in its monthly review, "is that it is calculated to facilitate genuine reconstruction of old markets or specific development of new ones. The re-opening of important channels of trade is of far greater, because of more permanent, value than the merely temporary stimulus to our industries which may result from the immediate expenditure in this country of a loan."

Record Sugar Crop

The world sugar crop for 1923-24 amounted to 19,650,000 long tons—more than a million tons greater than the total for 1914-15, which hitherto represented the top mark for production. Cuban factories turned out more than four million tons, followed by those in British India. It is expected that the new year will bring forth even larger crops.

Condition of Business

(*Continued from page* 394)

stocks. In the case of United States Government securities, the recession was especially marked, and losses ranged up to 1¾ points for the long-term Treasury 4¼s.

Railway Outlook Brighter

INCREASED confidence in railway securities on the part of investors recently has been evidenced not only by the strength in outstanding stocks and bonds, but also by the absorption of several new issues of railway common stock, which have been infrequent in recent years. Even prior to the election, the expansion in traffic and the larger earnings of the roads has laid the basis for a better feeling toward the industry, and the results of the election seemed to assure several years in which transportation problems will be given sympathetic treatment.

Although gross revenues of Class 1 roads were smaller in September than a year before, economies in maintenance of way and equipment made possible the largest net railway operating income since July and August, 1918, and reduced the "operating ratio" to 70.56 per cent, the lowest since July, 1918. Reports for October, available at the end of November, from more than fifty roads, including the largest of the trunk lines and transcontinental systems, showed a continuance of good earnings in October.

Strength in the Exchanges

A FEATURE of the financial markets in November was the pronounced strength in many of the foreign exchanges. Sterling advanced about 13 cents to $4.64, the highest level since May, 1923. Swedish exchange sold slightly above par, Dutch guilders reached par for the first time in five years, and Swiss francs were only slightly below parity. Indian rupees continued to establish new high levels since 1920, and substantial advances occurred also in Spanish, Norwegian and Danish currencies.

In the case of sterling the advance occurred notwithstanding heavy crop buying requirements and continued sending of funds to New York to meet the Dec. 15 debt installment of the British government. The explanation seemed to lie in the return to power of the Conservative party and the subsequent recalling of large balances which had been transferred to New York last year when the threat of a capital levy appeared. Other factors which helped to strengthen sterling and the other exchanges included further American investments in foreign securities, and some tendency to transfer balances abroad to take advantage of higher interest rates there.

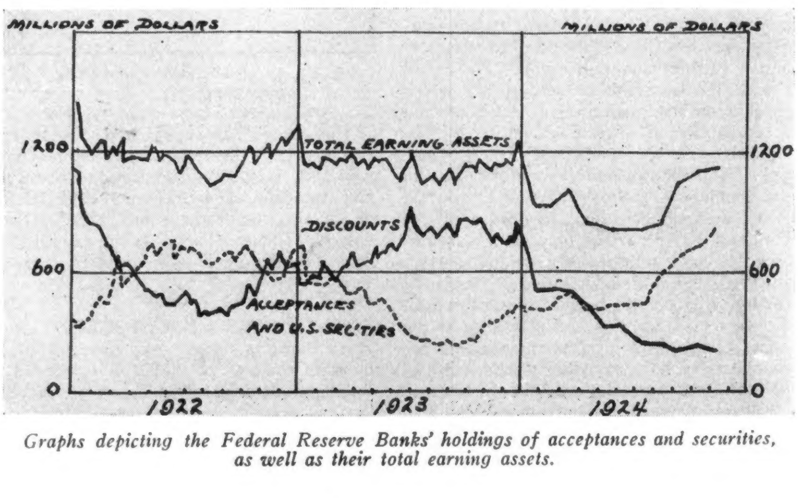
When Is Business "Normal"?

THERE can be no doubt but that a very substantial expansion in industrial and trade activity has been in progress since June and July. The increases which have appeared in the reported totals of various lines of production and trade, however, do not in themselves furnish a very clear idea as to the underlying tendency in business, since many lines usually become more active during the fall and early winter. Moreover, where the reported figures are in terms of dollar amounts, as, for example, in the case of wholesale and retail trade, or bank debits to individual accounts, it is necessary to allow for price changes before drawing conclusions. Again, the statement, for example, that the volume of freight traffic carried by the railroads is larger than at this season in previous years, is not a complete indication of business tendencies, since we should expect a growth in traffic from year to year along with the increase in population. These distorting influences must all be eliminated before we can attempt to show whether business is better or worse.

The index numbers in the following table show the recent tendencies in many lines of basic production, with allowance made for these various modifying factors. The figures, which are taken from the publications of the Federal Reserve Bank of New York, show what business is in comparison with what it might reasonably be expected to be, having in mind the usual seasonal variations and year-to-year growth. While the indexes must to some extent be considered only as first approximations, they are undoubtedly much more significant than the unadjusted figures.

What the Indexes Show

TO take a specific case: The rapid increase in activity in cotton textile mills recently has reflected in part the usual ten-



Graphs depicting the Federal Reserve Banks' holdings of acceptances and securities, as well as their total earning assets.

dency toward increased production in the fall months. But even when allowance is made for this seasonal tendency, it is seen that activity in October was nearly 50 per cent larger than in July, the October index of 91 per cent of normal comparing with 61 in July. However, the rate of activity was still somewhat slower than in October of 1923, if allowance is made for the year-to-year growth characteristic of the industry.

(Per cent of normal)

	July, 1924	Oct., 1924	Oct., 1923
Pig iron	57	75	98
Steel ingots	55	86	101
Cotton consumption	61	91	94
†Woolen mill activity	70	*102	102
Bituminous coal	75	94	99
Anthracite coal	93	83	95
Copper, U. S. mines	104	*111	106
Tin deliveries	60	88	98
†Zinc	70	69	73
Cement	147	147	135
Lumber	107	*123	137
Leather, sole	73	*81	91
Boots and shoes	73	*96	98
Automobiles	113	120	159

*Preliminary.
†Seasonal variation not allowed for.

In nearly every case the October indexes were higher than those for July, and many were above normal or only slightly below, but in nearly all lines of basic production the October rates of operation were lower than a year ago. In the case of many industries which produce more directly for the ultimate consumer, such as meat packing, sugar refining and flour milling, the rates of activity have remained high all during the summer and fall.

General Business Active

FURTHER evidence that general business has not been as slow as would be supposed from a study of the reports from the widely fluctuating basic industries alone is found in the movement of merchandise and miscellaneous freight on the railroads and the volume of checks which individuals drew against their bank accounts. Merchandise and less-than-carload freight includes that which is taken to the freight offices and loaded into cars there rather than being loaded directly at the manufacturing plants. Miscellaneous loadings include all of the larger loadings of dry goods, automobiles and a considerable part of groceries in wholesale quantities, and much of the merchandise which is for immediate use. For these reasons changes in the movement of merchandise and miscellaneous freight are regarded as indicating changes in general business conditions. During the period of mid-summer inactivity in many basic industries, these kinds of freight fell only 4 per cent below normal and have since advanced to 8 per cent above normal, allowing for the usual fall increase. A good example of the necessity for making allowance for normal year-to-year growth in comparing totals in various years is found here. During much of October merchandise and miscellaneous loadings were running from 3 to 4 per cent higher than a year previous, but this is only very slightly larger than the normal annual rate of growth.

Since a very large part of purchases nowadays are paid for by check, the volume of checks drawn against individual accounts is another good measure of business activity. Debits in New York City are usually excluded from consideration, since the totals are apparently influenced by speculative ac-

tivities more than in other cities. But taking the figures for 140 other centers, we find that business improved about 6 per cent between July and October and was perhaps 5 per cent above the normal level. This is after allowing for the usual seasonal variations, changes in the price level and normal growth.

Immediate Outlook Good

WHILE business economists are pretty generally agreed that the immediate outlook is for good business, some difference of opinion has developed as to the probable duration of the upward movement. In a recent bulletin of the Cleveland Trust Company, the conclusion is reached that during the past summer the business cycle, which began in 1921, came to an end. The size and duration of this period of prosperity was limited by the fact that agricultural conditions were exceptionally bad, export trade had fallen off because of the widespread distress abroad, and credit conditions were only fairly easy. Under these circumstances the period of real prosperity lasted only long enough to make up the shortage of construction and manufactured goods that had accumulated during the war and post-war years. The new cycle, which began in the summer, started off with the combination of increasing industrial production, good agricultural prices, expanding exports and easy credit conditions, which in previous years has characterized the beginning of periods of genuine and prolonged prosperity.

Somewhat in contrast is the view of the Harvard Economic Service, which holds that we are still in the old cycle, the duration of which has been lengthened by the abnormal ease in money conditions. This has resulted in a series of minor upward and downward swings, without any acute credit stringency and subsequent liquidation. While this view also expects good business for several months, another intermediate movement, marked by recession and recovery, is considered not improbable before a period of sustained prosperity develops.

The Growth of Savings

A STATISTICAL study just completed by the Savings Bank Division of the American Bankers Association shows that the total savings deposits in the United States increased in the last twelve years from $8,425,275,000 to $20,873,562,000, a rise of $12,448,287,000, or nearly 148 per cent. In the twelve year period since 1912 per capita savings in the United States expanded from $89 to $186, an increase of $97, or 109 per cent. The total number of savings depositors in this period grew from 12,584,316 to 38,867,994, indicating that savings depositors today are more than threefold what they were twelve years ago.

The compilation includes the savings deposits in mutual savings banks, state banks, trust companies, private banks and national banks, based upon official reports of national and state banking departments, and include all items reported as savings deposits, certificates of deposit payable in thirty days or over, and postal savings.

Wool Market

(*Continued from page* 387)

asked to furnish samples representing the British commercial grades. A committee of the British Wool Federation reviewed these samples, made determinations of the average Bradford qualities regarding diameter of fiber, and forwarded the set to Washington.

A tentative correlation between these grades and the official wool standards of the United States was then prepared. For this correlation the seven American grades have been divided or refined into 12 grades so that they may be compared exactly with the 12 British grades. The Department of Commerce and the Research and Standardization Committee are cooperating in this phase of the work. This correlated set of wool grades has now been sent abroad for the comments of the British Wool Federation.

The United States official wool standards had already been exhibited at the Royal Agricultural Show, held at Leicester, England, early in July, and according to a letter from one of the largest wool firms in Great Britain, the standards aroused a great deal of interest. The firm expressed the hope that the exhibition will do something to facilitate the adoption of similar standards in Great Britain and other countries, a state of affairs very much to be desired, it is stated. Requests for copies of the official wool standards of the United States have been received from several foreign countries, including South America, England, Canada, South Africa, Japan and Russia.

Educating People in the Use of Grades

MEANWHILE the work of educating our own people in the use of the grades is going rapidly forward. Exhibits are made at state fairs with an expert in attendance to explain them. Similar work is done with growers' and other associations. Perhaps the most promising educational work has been done through two-day wool grading schools conducted in cooperation with the state extension services in Michigan and Ohio, to instruct county agents and other extension workers in the application of the United States standards. Attendance at these schools has been limited to ten students selected by the State Director of Extension. This limited number of students have been key men in each state, who in turn instruct others. Sets of the official wool standards are furnished to those in attendance, who, after completing the course, may give demonstrations, hold local wool grading schools and distribute correct information relating to the official wool grades in their respective localities. Other states are interested in having such courses given. In one case the Director of Extension took the course. Extension leaders, livestock specialists at the college and experiment stations, county agents and leading wool growers entered the classes.

A wool grower at Perrinton, Mich., who took the grading course, writes that the use of the Federal grades saved him $75 in selling his clip this first year, and that he considers the instilling of knowledge of wool among the growers of vast importance, not only in selling wool but in grading flocks and in studying market quotations.

To Teach Grading by Correspondence

WITH the cooperation of the Bureau of Agricultural Economics, the Missouri State Marketing Bureau will try out the idea of teaching wool grading by correspondence among twenty-five or more prominent wool-growers in that state. In outlining the plans it has been proposed that a set of the official standards, a set of fifty or more samples of wool serially numbered, and blank forms for indicating the grade of each sample be furnished to prospective students. After the student has indicated on the chart furnished him the number and grade of the samples, the chart would be examined, corrected and returned to him for comparison and further study.

Wool Market News Issued

WORK toward standardization of grades and terms has greatly strengthened the Federal market news services on wool, which take various forms and which are widely used. The daily telegraphic reports of the Boston wool market, the center of the trade in the United States, are distributed by 15 field offices of the Department of Agriculture, by a number of state agencies, by the Associated Press, independent newspapers and other periodicals, by the commercial telegraph wire and by radio.

A weekly review, issued from all offices, gives market comment on domestic, territory and foreign wool, price quotations by grades on domestic wool, grease basis, and on the same grades of domestic and territory wools, scoured basis. In addition, the report as issued from the Boston office contains market comment and price quotations on pulled wools, mohair, tops, noils and waste, quotations on foreign wools and a report of imports at Boston, New York, Philadelphia and San Francisco.

During the wool marketing season, a semi-monthly survey of the wool situation in the ten principal range states is issued. This release is compiled from information wired to Washington by field representatives of the crop and livestock estimates work.

Banking a Profession

(*Continued from page* 383)

beyond an opportunity for private gain. As one of those charged with the high responsibility of exercising this function, he will, like every real devotee of a profession, feel it incumbent upon himself to develop to the highest degree his knowledge, his skill and his judgment. But beyond this he will constantly apply in his work not simply the test of the profit and loss account, but also the broader human test of real "excellence in accomplishment." In this connection he must ask himself: How has my work this year added to the happiness of humanity and how has it made the world a little better place than before in which to live?

Recent Decisions

DIGESTED BY THOMAS B. PATON, JR.

Assistant General Counsel

Stopping Payment on Certified Check—Certification at Request of Drawer and Payee Distinguished—New Jersey.

APPELLANT drew a check in favor of his wife, procured the certification thereof by the defendant bank and subsequently gave it to the wife payee in consideration of a separation agreement. In this agreement the wife promised not to take certain furniture from appellant's home. Thereafter, and before the check was presented for payment, the wife removed the furniture in question in breach of her agreement, whereupon appellant informed the defendant bank of the facts and filed a stop-payment order.

The payee indorsed the check to her brother, and he deposited it to his account in another state. Upon presentation through the clearings, defendant drawee paid the check, and this action was brought to hold defendant liable to the depositor (appellant) for the amount of the check on the ground that the bank should have obeyed his stop-payment order.

This court sustained the lower court in holding the bank was justified in paying the check under this set of facts, despite the attempt to stop payment by the drawer. For, while the bank would be bound to refuse payment pursuant to the stop-payment order of a drawer who procured certification before delivery if the holder of "payee is not a bona fide holder for value, but has obtained the check by fraud perpetrated by him upon the maker * * * such rule, however, has no application to a certified check held by a payee who is a bona fide holder, for value, nor to a holder in due course, although certified at the request of the drawer before delivery, nor where the check, after delivery, is certified at the request of the payee or holder."

The court said "that there is nothing to justify us in holding that Mrs. Sutter, the payee, procured the check by any fraud perpetrated by her upon her husband. For this reason we conclude that the bank would have been justified in making payment of the check to Mrs. Sutter, upon presentation thereof by her. If the bank was not justified in making payment to Mrs. Sutter, the payee named in the check, then it was not justified in making payment to Mr. Mack, the indorsee, who, we have found, under the facts here presented, was not a holder in due course, and the stop-payment notice of the maker, under such conditions, would operate in favor of the maker against him as such holder, and would place the bank in a position where it was not justified in making payment to such an indorsee holder.

Sutter v. Sec. Trust Co., N. J. Court of Errors and Appeals. Decided Oct. 27, 1924. Not yet reported.

Note: It would seem in this case that a certifying bank in New Jersey would be held justified in refusing payment only in those cases where the facts show that the maker parted with his check through fraud of the payee. But where the maker has another defense, such as failure of consideration, as seems to exist in this case, the bank does not seem to be held responsible if it deprives the maker of such defense by allowing the check to be paid.

"Payment Stopped" Written on Face of Check. Status of Holder in Due Course Acquiring after Erasure—Idaho.

DEFENDANT drew a check and delivered it to the payee who presented it for payment at the drawee bank. But before the presentment, the drawer gave the bank a stop payment order, and upon presentment the bank official wrote on the face of the check, "Payment stopped," and gave the check back to payee, who skilfully erased the words, and passed it on to a merchant for an overcoat and the cash balance. The merchant is the plaintiff in this action to recover the amount of the check.

Plaintiff was allowed to recover on the check under the Negotiable Instruments Act, [§124] for "when an instrument has been materially altered and is in the hands of a holder in due course, not a party to the alteration, he may enforce payment thereof according to its original tenor."

Wade Bros. v. Bybee, Idaho Sup. Ct. Decided Oct. 7, 1924. Not yet reported.

Safety Deposit Box—When Bank Not Liable for Loss by Burglary—Tennessee.

DEFENDANT bank being sued for the loss by burglary of certain bonds placed in its safe deposit box for hire, was held not liable on the loss, upon proof that it had as secure safety deposit boxes as those maintained by similar banks in towns the size of the one where defendant was located. To the complaint that defendant did not furnish plaintiff's securities with the same protection as it gave its own cash in the inner safe, the court said that "for the consideration of $1.50 per year it could hardly be expected to furnish equipment burglar proof or safe enough to justify a reasonably prudent person in believing that such equipment was burglar proof." Furthermore, a certain box was rented to plaintiff, and defendant had no right to place plaintiff's securities elsewhere. The California case of Webber v. Bank of Tracy, 225 Pac. 41, was quoted from with approval.

Young v. First Nat. Bank, Tenn. Sup. Ct., filed Nov. 1, 1924, not yet reported.

Bank holding itself out as having special facilities for safekeeping securities is not an accommodation bailee (although it receives no compensation), for its compensation is indirect benefits. Such bailee is bound to exercise care which a prudent and diligent banker would exercise, and while proof that it exercised the same care toward the bailed goods that it did toward its own goods of a similar nature might tend to show due diligence, it is not conclusive proof of diligence. Nor is it sufficient to show that it kept the securities in the same kind of vault used by other banks.—Hill v. Ansted Nat. Bk., 123 S. E. 417 (W. Va. 7-24).

A bank paying out on individual account a deposit of a check on its face payable to one as agent is liable to principal actual owner of the check. But the bank is entitled to a credit of the amount due to the agent as commission.—Mitchell v. First Nat. Bk., 263 S. W. 15 (Ky. 6-24).

A check payable simply to payee, the words "or bearer" being stricken out, is not negotiable, and one to whom check is assigned takes subject to all defenses between original parties.—Haggard v. Mutual O. & R. Co., 263 S. W. 745 (Ky. 7-24).

Where 30 minutes after presentment for payment and refusal because no funds had been left for payment, the holder of the note was informed by plaintiff that he had just made deposit, it still being during business hours, the holder could be restrained from foreclosing on the mortgage security.—Williams v. Morris, 263 S. W. 859 (Mo. 6-24).

Bank collecting on checks deposited on forged indorsement is liable to the true payee. Statute of Limitations does not bar the claim of the true payee, for the relation of banker and depositor makes a demand for the deposit necessary to begin the running of the period of limitation.—Strong v. Mo.-Lin. T. Co., 263 S. W. 1038 (Mo. 6-24).

A bank accepting the deposit of a check in which the payee has been changed and paying out the proceeds of the check to the impostor payee is liable for the amount to the real payee, regardless of the bank's diligence or negligence in discovering the alteration.—Charleston Paint Co. v. Exchange Bank & T. Co., 123 S. E. 830 (S. C. 8-24).

While one taking a note after maturity has notice of and is subject to the equities between the original parties, nevertheless equities arising between the original parties subsequent to the transfer do not affect the rights of such transferee taking after maturity.—Ga. State Bk. v. Harden, 124 S. E. 68 (Ga. 7-24).

A note bearing the highest legal contract rate, interest payable semi-annually and defaulting interest becoming principal, is usurious in Mississippi.—Rogers v. Rivers, 100 So. 385 (Miss. 6-24).

Under a statute prohibiting wife from becoming husband's surety directly or indirectly, a wife's note in payment of husband's debts is held void.—Trost v. Beck, 100 So. 472 (Ala. 5-24).

Payment of full value of a note is not necessary to make indorsee holder for value, but consideration must be more than merely nominal.—Kincaid v. Estes, 262 S. W. 399 (Mo. 5-24).

Bank held not required to refund unearned interest when note is prematurely paid and interest had been deducted to maturity date. —Pendery v. F. W. State Bank, 262 S. W. 857 (Tex. 5-24).

A bank, through its president, knowing of a landlord-tenant relationship and that the rent had not been paid, is conclusively presumed to know of the statutory landlord's lien, and the bank cannot apply the landlord's portion of the proceeds of the crop to a claim of the bank against the tenant.—Miller C. Bk. & T. Co. v. Beasley, 262 S. W. (Ark. 6-24).

Forgery may consist of passing an instrument known to be false as well as making a false one.—People v. Lucas, 227 Pac. 709 (Cal. 5-24).

Promissory notes, containing an unconditional promise to pay, but expressly stating that they are issued under a trust agreement, carry their own charge of notice of the trust agreement to a holder. They must be construed in connection with such trust agreement.—Crosthwaite v. Moline P. Co., 298 Fed. 466 (N. Y. 4-24).

Persons claiming trust fund against an insolvent bank must show that the funds came into the hands of the receiver. The fact that they were used to pay debts of the bank prior to receivership does not give priority.—Anadarko C. O. Co. v. Litteer, 300 Fed. 222 (Okla. 7-24).

In Georgia a mortgage given to secure repayment of a debt on which a usurious rate of interest is charged is not itself void. The statutory penalty for usury is loss of the interest collected, and does not affect the mortgage.—Poulk v. Cairo Bk. Co., 123 S. E. 292 (Ga. 5-24).

Upon the insolvency of a Maryland building and loan association the information was disclosed in the trial that there was no record of a stockholders' meeting within the previous fourteen years, and no directors' meeting within the previous six years.—Pocomoke Nat. Bk. v. Crockett, 125 Atl. 7-12 (Md. 4-24).

A bona fide holder for value of a note is not subject to the defense that it was made on Sunday when it was dated as of a secular day. Nor would the further fact that the holder of the note payable to bearer was assignee instead of indorsee prejudice his rights.—Hare & Chase v. Englander, 125 Atl. 313 (N. J. 6-24).

A bona fide pledgee of a negotiable promissory note indorsed and transferred to him before due, as collateral security for a loan then made, is a holder for value.—Stephenson v. Perry, 199 N. W. 499 (Neb. 6-24).

A bank receiving a sight draft with bill of lading attached and without specific instructions should collect from the consignee the sum named in the sight draft and deliver it and the bill of lading to the consignee and transmit the proceeds to the forwarder of the sight draft. If payment is refused by the consignee, the bank should return the sight draft and the bill of lading to the forwarder with notice that payment is refused. Farmers S. Bk. v. Aksamit, 199 N. W. 733 (Neb. 7-24).

An assignment is a transfer of title, while an indorsement is not only a transfer of title, but also a "new and substantive contract by which the indorser becomes a party to the instrument and liable, on certain conditions, for its payment."—Johnson v. Beickey, 228 Pac. 189 (Utah 7-24).

Where drawer of check informed the payee that he did not have funds to cover the check, but would have by a certain date, which he failed to do, the drawer is not subject to the "Checks without Funds" law.—People v. Wilkins, 228 Pac. 367 (Cal. 6-24).

A holder in due course of a note held as collateral security is such holder only for the amount of the principal debt for which the collateral is pledged.—Minatare Bank v. Wilson, 199 N. W. 111 (Neb. 5-24).

Although a check is deposited under an agreement that the check is accepted as a deposit for collection only, still the bank is liable for the loss caused by its negligently losing the item and failing to present it.—Stark v. Pub. Nat. Bank, 206 N. Y. Supp. 8 (9-24).

A note dated at Chicago and made payable there is governed by the laws of Illinois, no matter where it was in reality signed. Greenbaum Bk. & T. Co. v. Porth, 226 Pac. 747 (Kan. 6-24).

A contract guaranteeing payment of notes conditioned on a certain bank's purchase thereof is not invalid although the purchase by the bank exceeded the 10 per cent limitation under U. S. Comp. Stat. Sec. 9761. Such violation is a question concerning the Federal Government alone.—Nielson v. Davidson, 226 Pac. 835 (Cal. 4-24).

The state court has jurisdiction of a proceeding between two of state's citizens to try title to office of director of a national bank. —State ex rel W. v. Barboglio, 226 Pac. 904 (Utah 5-24).

A banking corporation is not bound by the acts or chargeable with knowledge of the acts of its cashier in respect to a transaction in which such cashier is acting in his own interests and outside the scope of his authority as cashier.—First State Bk. v. Miller, 226 Pac. 1060 (Okla. 6-24).

Bank Check Given by Maker for Losses in Gambling Is Utterly Void, Though Transferred to Bona Fide Holder. —New Jersey.

B GAVE his check to W to pay to W his losses in a card game. W indorsed the check to F, who acquired it in good faith, for value, and without knowledge of the circumstances under which the check was given. The check was dishonored, whereupon F instituted an action against B and W on the check. The trial court refused to direct a verdict for the defendants and submitted the case to the jury, instructing them that F was entitled to recover if they found that he was a holder in due course of the check under the Negotiable Instruments Act. But this court overruled that, holding (1) that the check was utterly void under the third section of the Gaming Act, even though it had been transferred to one who took it in good faith for value without notice of the circumstances under which it was given; (2) that Sec. 57 of the Negotiable Instruments Act did not repeal Sec. 3 of the Gaming Act; (3) that the trial court erred in submitting the case to the jury; (4) that the verdict should have been directed in favor of the defendants. Fisher v. Brehm, 126 Atl. 444. N. J. 10-20-24.

Attempt to Hold Customer Liable Where He Innocently Introduced One Who Perpetrated Fraud.—California.

WHERE the plaintiff, a customer of the defendant bank, in the absence of fraud or misrepresentation on his part, innocently introduced another party to the bank, and an account was opened in their joint names with a worthless check deposited by the other party, and a writing was signed and delivered by the plaintiff to the bank limiting the bank's authority in making payments to the amount of the deposit, and also providing that the bank might deal with the other party as though the plaintiff had no interest in the account, and where the bank cashed a check for the other party drawn on said account and the check proved worthless and the bank applied money standing to the plaintiff's credit on its books to reimburse itself for the loss, held that the bank was bound to restore plaintiff's account. Faulkner v. Bank of Italy, Cal., Dist Ct. of Appeals, decided Oct. 23, 1924, not yet reported.

Garnishment of Check Under State Statutes.—Colorado.

WHERE defendant bank held a check drawn upon it, which was left with it unindorsed by the owner and holder thereof, and there was money in the bank to the credit of the drawer to pay it at the time garnishment process against such owner and holder was served on it, and such bank failed to deliver such check to the constable serving the process, held that defendant bank was liable to plaintiff for the amount of the check. Great West. F. Corp. v. Hamilton Nat. Bank, Colorado Sup. Ct., decided Oct. 6, 1924, not yet reported.

Banking Ethics

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own houses in order. We have made mistakes and many of them. Let us profit from the experience. If there is further restrictive legal action, it ought to be forthcoming only when asked for by us in order to settle principles accepted by us beforehand and to which we have already pledged acquiescence.

The need for recognized professional ethics is not alone for the moment, but is indispensable for the continuation of professional ideals and the training of those who must in the future have the management of our financial institutions. The education and training of our young bankers is in our hands. We shall be charged with having moulded and shaped their professional characters, practices and principles. Will the charge be a credit or a debit? There is still time in which to take account of the responsibilities we are assuming in respect to both our tutelage and our examples.

Answering the Critics

CRITICS of codes of business ethics argue that their paragraphs are mere generalizations; that they lack detail; that they are not new, and not practical.

The answer is that generalization is unavoidable in addressing oneself to broad basic principles and recommending them to a great diversity of vocations. The same situation effectually prevents the attempt to detail the application of the stated principles. They can be made definite by applying a number of them specifically to transactions or groups of transactions in our day's work, whereupon they will cease to be generalizations.

Setting up a few targets in the form of maxims or propositions, here are twenty such maxims gathered over a period of years, from well accepted and authoritative addresses before bankers' conventions, from resolutions adopted by conventions of bankers and from contributed papers accepted by standard financial journals. They are not presumed to be a complete code, nor to have attained final definition, nor to be free from exceptions or the need of explanations and illustration:

I—Banks and bankers should obey all the laws of nation, state and city.

II—A bank's corporation records and operating books of accounts should constitute a complete and exactly truthful record of all its transactions. Reports therefrom or exhibits of the same upon lawful request of those to whom they may concern should be scrupulously exact and truthful.

III—What is best for the community and clientele must be best for bank operating staff and stockholders. Community service, trust and stability must be first and bank profits secondary.

IV—The soundness of each bank in a community is of vital concern to all the banks in that community and demands mutual help, interchange of essential information, warnings and counsel, preferably through regularly organized clearing houses or other suitable associations.

V—The deposits of a community should, after setting aside suitable first and secondary reserves, be used for the benefit of that community; they should not be exported to obtain higher rates of interest nor incur greater than local credit hazards.

VI—The public's confidence in the banker forbids his issuing letters of introduction, recommendation or indorsement or heading subscription or solicitation lists, the doing of which will by the employment of his or the bank's prestige disadvantageously influence anyone, or injuriously change the condition of anyone.

VII—A bank should not embark so far in merchandising of securities as to involve recommendation or sale of paper it would not buy for its own account, or whose character involves excessive risk or speculation.

VIII—A bank should not by any expedient exact more than the legal contract rate of interest. It should not permit a higher rate of discount to become the inducement for the purchase or discount of paper otherwise objectionable, or growing out of a subject matter which it would not have approved for a new loan in the first instance.

IX—Communications between banker and client are confidential and privileged and must be held inviolate. Information gained through banking relationships should not be exploited for gain and especially when such exploitation involves loss or injury to anyone.

X—A bank executive or employee must be an individual of good moral character, reputation and unimpaired personal credit, with adequate education, training and experience.

XI—The banker should so regulate his conduct and practices as to render unnecessary the imposition of legal restrictions; instead it should be his endeavor to earn and deserve the public confidence.

XII—A bank is a public trust and not the personal money-making shop of its shareholders or operatives; they must not, outside of regular salaries, compensations and dividends, profit from the use of its funds, credit or prestige.

XIII—A bank officer or employee must not directly nor indirectly use or borrow for personal benefit any of the funds of his bank, nor permit their being borrowed or used by any enterprise in which he is substantially interested as stockholder or partner. He must not become a partner in concerns which will become substantial borrowers from the bank.

XIV—The position of lender and borrower are inherently incompatible; a banker cannot occupy both positions in his bank.

XV—A banker must never accept personal profit as an inducement for any of his bank's transactions.

XVI—The time and abilities of a bank officer or employee belong to the bank which employs him. His fees, commissions and other earnings attributable to or derived from his position belong to the bank, unless by formal action of the bank's board a general or special exception shall be made.

XVII—The account of a depositor or borrower should be accepted only after careful consideration, and refused if he be a confirmed violator of law, unethical in his practices, a fraudulent bankrupt, or contemptuous of his credit or reputation.

XVIII—Business solicitation and publicity for

the individual bank should aim as well at building public faith in banking as a whole, inspire confidence in all the community's banks and neither derogate any of them, nor make unfair comparisons nor unjust claims.

XIX—Others engaged with us in banking are to be regarded not as combatants in a game of strife, but as associates in a noble profession of service, with a need of fraternal solidarity, uniformity of practices, a mutuality of interests and a common discipline of morals, to be exercised through the various forms of bankers' associations.

XX—The education of subordinates should be the grave concern of every banker. He should have a personal interest in their welfare and their advancement in practice and ethics. Failure to make suitable progress should cause dismissal for the good of the profession.

The Good In It

BUT why the bother of code making? If we make no professions in this material world of self seeking in which we live, but little need be expected of us in morally controlled performance. We need constantly to salute the flag of conscience, so that we and others may know of our allegiance thereto. Others, seeing our allegiance, may yield theirs also. Thus a growing body of opinion gives weight in the estimation of still others, and the thing grows.

Banking has suffered severely from the coming into the profession of men having no true conception of the obligations and trusts involved, and the entire absence of any statement of those trusts and obligations, to serve as their chart and warning. It is ours to be continually taking advanced ground, to recognize new principles reflected from severe experiences, to state them and when such statement finds general acceptance among us, ask for their recognition, if necessary, by statutory law, so that those who will not yield to professional opinion may be made to yield to general public opinion. We should march on ahead in self control, self regulation and good business morals; we should beforehand make the motions for adoption of any necessary banking regulations.

Stock Exchange Drive Against Swindlers

THE clearing house idea is to be adopted as a means of checking the stock swindlers.

The New York Stock Exchange, the nation's principal medium for the sale and purchase of stocks and bonds, has announced that it will create a special department to direct a unified drive against the crooked security sponsors. The exchange will work in cooperation with the vast chain of Better Business Bureaus, which have been set up to obtain details of suspicious transactions, so that the facts, if warranting action by the courts, may be presented to the proper authorities.

The aid of the government has been pledged in the drive to rid the country of the financial sharpers who have preyed on the investors of the nation. It was President Coolidge himself who suggested that the stock exchange should take steps to safeguard the investing public by eliminating those who were mulcting the people. The special department will act as a clearing house for the collection of information to be passed on to the proper government officials. It is the opinion of E. H. Simmons, the head of the stock exchange, that the "earnest and vigorous enforcement of the laws now on the statute books is the most effective way of bringing home to this class of criminals the danger of their particular activities."

The intention of the stock exchange to undertake the new work was announced in a letter sent by Mr. Simmons to all of the members, branch office managers and correspondents of the financial mart, inviting their "earnest cooperation and continuous activity in a nation-wide effort to rid the country of security swindlers who are a menace not only to innocent investors and to legitimate business, but to the very government itself." Reciting that the government needs the assistance of "all good citizens" in securing definite information as to attempted frauds, Mr. Simmons urged the support of all interests to meet the situation.

"It has been my privilege to discuss this matter with the President of the United States and with the Postmaster General," he continued. "They are keenly alive to the danger to the country involved in security swindling, and they welcome the assistance of all legitimate business."

A few weeks after the drive was inaugurated Mr. Simmons stated that "the response thus far has exceeded our most optimistic expectations, both in volume and in enthusiasm."

His request for suggestions from bankers as to how cooperative efforts might be made to help abate the evil drew a response from a prominent New Jersey banker, who pointed out that the New Jersey Bankers Association in February 1923, conducted a campaign to curb the sale of highly speculative and fraudulent securities with excellent results. The bankers spent more than $20,000 in warning the public against the wiles of the swindlers. The campaign, aside from the direct benefit to bankers in retaining the funds that otherwise would have

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Against Swindlers

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gone into the hands of the sharpers, produced a favorable reaction among the public as the outgrowth of the knowledge that the banks were interested in their welfare.

As a means of local newspaper cooperation, the example of a Rochester daily is commendable. The paper offered small prizes for the best letters submitted giving actual experience in buying worthless securities. The offer brought out letters bristling with human interest, revealing heart-touching experiences in losing the savings of a lifetime. The publication of the letters gave the best kind of disinterested publicity against hasty investments.

Never Asked for an Increase in Salary

AMONG the many classifications which may be made of men with regard to their industrial habits there are two which occasionally force themselves upon the attention. One class is comprised of those who devote themselves without a care as to the future to pouring themselves into the present job. And another class consists of those who apparently work equally well, but keep an eye open for the main chance.

Grover Cleveland was one of the former. For many years his intense application to the thing before him seemed to absorb all attention. He said of himself in after years that when he was Governor of New York State he had heard, of course, talk about his chances of getting the nomination of his party for the Presidency, but he had been too busy to give any attention to it.

The late James B. Forgan, the Chicago banker, seems clearly to have been another who, both as boy and man, forged his way to a large extent by concentrating on the job before him. In his "Recollections of a Busy Life," he says:

"I have frequently been accredited with success and asked to what I attribute it. My answer has been that in so far as it was attributable to me at all, it could only be to my willingness to work hard at the job assigned to me and my readiness to seize opportunities as they came to me. Two facts in my business career afford me especial satisfaction and considerable pride. One is that only once had I to apply for a job, and that I obtained through a competitive examination. The other is that never did I ask for an increase in salary. I have never occupied a position with which I was dissatisfied, nor was I looking specially for a change, or even for further promotion when the offer of a better position or promotion came to me. I simply did my level best to perform the duties assigned to me in the position I occupied, and I found my advancement and pay were always well taken care of by those who had the dispensing of them.

"In the changes I made the increased pay was, of course, one of the considerations which induced me to make them, but after my salary was fixed in any of the banks I worked for, all increases of pay came to me unsolicited.

"My business success was, of course, coordinate with that of the banks I worked for, and their success was attributable to the marvelous opportunities they had for growth and development.

"The fact is that the extraordinary business development of the United States and Canada during the past generation has afforded opportunities for bankers and banking in both countries unparalleled in any previous generation in any country in the world's history. All that we bankers had to do, therefore, was to keep the middle of the road, manage the affairs of our banks honestly and with ordinary care, and success for ourselves and our institutions was inevitable.

"The contrast between the business opportunities afforded in St. Andrews, Scotland, where I commenced my business career, and those existing in Chicago, is very striking. A statement of business growth in St. Andrews, as it appeared to be when I visited the grand old "Gray City by the Sea" two years ago, when compared with the growth of Chicago, as I have described it, will emphasize the contrast in the opportunities afforded for young men in the two places.

"During the fifty years between the date of my emigration from St. Andrews in 1872, and the occasion of my last visit to it in the summer of 1922, the only noticeable business growth was in the manufacture of golf clubs. * * * I found all other lines of business very much as I left them fifty years previous. * * * As measured by the development of the banking business, however, the only perceptible increase was the addition of one branch bank; there were four such banks in my youth, now there are five. The four that were in business when I served my apprenticeship in one of them still occupy the same offices they did then, and I could discern no perceptible change in their equipment or in the number of employees. In the office in which I served my apprenticeship there were the same counter, the same desks, the same stools."

A ROMANTIC episode of the sea has been now completed by the salvage of over 99% of the gold that was engulfed when the "Laurentic" was torpedoed in January, 1917, and sank in 90 feet of water off the coast of Donegal. The gold bars in her cargo numbered 3193. All have been recovered during the years which have elapsed since the disaster with the exception of 27 now considered to be buried too deeply in sand and mud to be retrieved. Besides the gold more than £250,000 worth of silver sterling coin has been recovered.